Canadian Pacific Limited

1985 Annual Report

Rail Transportation

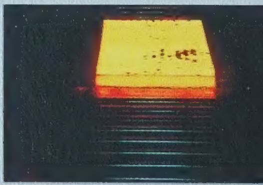
Non-Rail Transportation

Oil and Gas

Mines and Minerals

Forest Products

Steel and Industrial Products



Real Estate

Other Businesses

Financial and Miscellaneous

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1986 Annual Meeting

The Annual Meeting of Shareholders is to be held on Wednesday, May 7, 1986, at The Hotel Vancouver, Vancouver, British Columbia, at nine-thirty a.m., Vancouver time.

Highlights

		1985	1984	1983
		(dollars in millions, except amounts per share)		
Income Items	**Revenues**	$15,040.3	$14,635.1	$12,759.3
	Net income from:			
	Rail Transportation	124.7	198.5	195.6
	Non-Rail Transportation	(25.3)	(6.8)	(84.5)
	Oil and Gas	188.6	182.8	147.3
	Mines and Minerals	(37.3)	14.6	(16.3)
	Forest Products	(16.8)	(6.9)	(69.3)
	Steel and Industrial Products	(1.4)	(27.3)	(65.5)
	Real Estate	20.1	19.1	18.1
	Other Businesses	20.8	33.0	30.0
	Financial and Miscellaneous	(26.7)	(30.1)	(11.8)
	Net income	$ 246.7	$ 376.9	$ 143.6
Ordinary Share Capital*	**Per Share:**			
	Net income	$ 1.11	$ 1.75	$ 0.66
	Dividends	$ 0.48	$ 0.47	$ 0.47
	Market price – High	$ 21 3/4	$ 17 7/8	$ 17 3/4
	(TSE) – Low	$ 15 7/8	$ 12 3/8	$ 11 3/4
	Shareholders' equity	$ 20.65	$ 20.92	$ 18.72
	Number of shares outstanding (000):			
	Average for the year	220,781	214,987	214,987
	At year end	297,706	214,987	214,987
	Total number of shareholders at year end	83,156	46,025	50,287
Rates of Return	Average capital employed	5.8%	7.8%	4.8%
	Average shareholders' equity	4.6%	8.8%	3.6%
Other information for the year ended December 31	Cash from operations	$ 1,350.9	$ 1,175.7	$ 1,181.3
	Capital expenditures	$ 1,896.3	$ 1,343.1	$ 1,173.1
	Average number of employees	123,400	119,800	121,100
Other information as at December 31	Total assets	$21,445.9	$18,796.1	$17,601.9
	Current ratio	1.1	1.3	1.2
	Debt: equity proportion	46:54	43:57	46:54

*Share data reflect three-for-one split effective May 17, 1985

Canadian Pacific in Profile

Rail Transportation

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interest	Revenues	Net Income after Minority Interest
$3,367	**$125**	$2,989	$198

Employees: 33,400

CP Rail

Soo Line Corporation

Non-Rail Transportation

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interest	Revenues	Net Income after Minority Interest
$2,146	**$(25)**	$1,948	$(7)

Employees: 23,400

Canadian Pacific Air Lines, Limited

CP Ships

CP Trucks

Oil and Gas

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interests	Revenues	Net Income after Minority Interests
$1,137	**$189**	$1,055	$183

Employees: 1,500

PanCanadian Petroleum Limited

Mines and Minerals

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interests	Revenues	Net Income after Minority Interests
$1,811	**$(37)**	$1,950	$15

Employees: 11,900

Cominco Ltd.

Fording Coal Limited

Processed Minerals Incorporated

Steep Rock Resources Inc.

Products/services/markets	Locations
Rail and intermodal divisions transport bulk commodities, and manufactured and processed goods over 15,000-mile railway system serving most of the principal centres of Canada and connecting with major U.S. railroads including Soo Line.	Head office: Montreal. Regional offices: Toronto, Winnipeg, Vancouver. Operating centres across Canada. Sales offices in the United States and overseas.
Provides rail service transporting resource and manufactured commodities over 7,600 miles of line in 12 midwestern states. Truck operations include intermodal and common carrier road services.	Head office: Minneapolis, Minnesota. Major terminals and maintenance facilities: Minnesota, Illinois, Wisconsin, Iowa, and Missouri.
One of Canada's international flag carriers. Transports passengers, cargo and mail over network of 23,300 Canadian route miles and 49,200 international route miles with 68 aircraft. In addition to transcontinental and regional services in Canada, the airline serves Tokyo, Hong Kong, Honolulu, Nandi (Fiji), Sydney, Auckland, San Francisco, Los Angeles, Pittsburgh, Fort Lauderdale, Buenos Aires, Lima, Santiago, Amsterdam, Lisbon, Rome and Milan. The airline also operates charter and tour services to a number of destinations.	Head office: Vancouver, B.C. Operating offices are located throughout its system and sales offices are around the world.
Hotel division owns, leases or manages 19 first class hotels and operates flight kitchens at five Canadian airports.	Hotels are in city centre and resort locations across Canada and in West Germany and Israel.
Through Canada Maritime Limited, 57% owned by Centennial Shipping Limited, container services are provided using four large vessels on the North Atlantic. Ports of call are Montreal, Felixstowe (England), Le Havre, Antwerp and Hamburg. Other services include a North Atlantic conventional ro/ro service and a container service linking Montreal with the Mediterranean.	Head office: Hamilton, Bermuda.
Canadian Pacific (Bermuda) Limited owns and operates diversified fleet of 30 tankers and bulk carriers around the world under a variety of commercial arrangements.	Head office: Hamilton, Bermuda.
CP Express & Transport offers full range of road transport services, including less than truckload, parcel delivery, truckload, specialized bulk systems, household and commercial moving and courier.	Head office: Toronto. More than 200 terminal locations throughout Canada and 6 terminals in the eastern United States.
CanPac International Freight Services engages in customs brokerage, international freight forwarding by land, sea and air for Canadian export and import trade, bulk liquid storage and warehousing.	Head office: Montreal. Branch offices and operations in Nova Scotia, Quebec, Ontario, Manitoba, Alberta and British Columbia and agents world-wide.
The company, one of the largest Canadian-owned hydrocarbon businesses, is engaged in exploration, production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. Products are sold primarily in Canadian and U.S. markets.	Head office: Calgary. Other offices: London, England, Colorado, and Texas. Exploration and development activities primarily in Western Canada, but also in the United States and the United Kingdom.
One of the world's largest mine producers and smelters of zinc and lead. Other major products include fertilizers, gold, silver, copper, and industrial chemicals. Markets are located internationally.	Head office: Vancouver. Major metallurgical plants at Trail, B.C.; mines in Canada, the United States, Greenland, Spain and Australia; fertilizer production plants in Canada and the U.S.
Develops and processes metallurgical and thermal coal reserves. Holds large undeveloped coal deposits in Western Canada. Markets include blast furnace steel producers, utilities and other coal consumers world-wide.	Head office: Calgary. Mine sites in Alberta and southeastern British Columbia.
Major products are salt for agricultural, water softener and human consumption and wollastonite for industrial applications.	Head office: Hutchinson, Kansas. Salt facilities are in Hutchinson and Florida and wollastonite facilities are in New York state.
Manufactures wide range of calcite products for industries in Eastern Canada and the United States; has interests in other non-metallic minerals, undeveloped iron ore properties and exploration for precious metals in Ontario.	Head office: Toronto. Manufacturing facilities: Perth, Ontario.

Forest Products

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interests	Revenues	Net Income after Minority Interests
$2,162	**$(17)**	$2,199	$(7)

Employees: 16,800

CIP Inc.

Great Lakes Forest Products Limited

Steel and Industrial Products

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interests	Revenues	Net Income after Minority Interests
$3,289	**$(1)**	$3,018	$(27)

Employees: 26,400

The Algoma Steel Corporation, Limited

AMCA International Limited

Real Estate

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interests	Revenues	Net Income after Minority Interests
$280	**$20**	$278	$19

Employees: 700

Marathon Realty Company Limited

Other Businesses

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interests	Revenues	Net Income after Minority Interests
$1,143	**$21**	$1,476	$33

Employees: 7,000

Maple Leaf Mills Limited

CP Telecommunications

Syracuse China Corporation

Financial and Miscellaneous

1985 (in millions)		1984 (in millions)	
Revenues	Net Income after Minority Interest	Revenues	Net Income after Minority Interest
$208	**$(27)**	$232	$(30)

Employees: 2,300

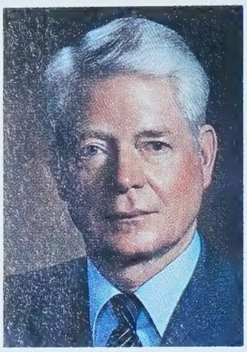
Canadian Pacific Securities Limited

Arion Insurance Company Limited

Canadian Pacific Consulting Services Ltd.

Products/services/markets	Locations
One of the world's largest producers and marketers of newsprint, supplying publishers in more than 35 countries. Also produces pulp, packaging materials, tissue products and building materials. Markets are located in North America, Western Europe and Asia.	Head office: Montreal. Facilities are located in New Brunswick, Quebec, Ontario and British Columbia.
Major products are kraft pulp and newsprint. Also manufactures fine papers, stud lumber and waferboard. Principal markets are in the United States.	Head office: Thunder Bay, Ontario. Facilities are at Thunder Bay and Dryden, Ontario, with wood resources nearby.
Canada's third largest fully integrated steel producer. Principal product lines are sheet and strip, plate, seamless tubulars, structural shapes and rails, with markets in Canada and the United States.	Head office and steelworks: Sault Ste. Marie, Ontario. Mining operations are in Ontario, Michigan and West Virginia.
Engages in the design, engineering, manufacturing, marketing, installation and financing of a broad range of industrial products, construction equipment, engineering and construction services and machine tools. Markets are chiefly in the United States and Canada.	Head office: Hanover, New Hampshire. Divisions and subsidiaries are located primarily in the United States and Canada. AMCA also has manufacturing and distribution facilities in Europe, Africa, the Far East and Australia.
Develops, owns and manages income-producing properties including shopping centres, and office, industrial, aviation-related and residential buildings. Also holds business and industrial parks as well as commercial lands.	Head office: Toronto. Properties are located across Canada and in the United States. Regional offices are in Vancouver, Calgary, Montreal, Halifax, Chicago, San Francisco, Atlanta and Portland, Oregon.
Produces industrial and consumer flour and flour-based products, including baked goods; operates one of the largest rendering businesses in Canada and a poultry business in Ontario; markets full range of animal and poultry feeds and merchandises and distributes grain.	Head office: Toronto. Plants in nine Canadian provinces, the Caribbean and Europe.
Provides, in partnership with Canadian National Railways, a comprehensive communications service involving mainly Telex, Data Telex, custom designed private line voice and data services, Telepost, Infoswitch and Electronic Office services.	Head office: Toronto. Regional offices: Vancouver, Toronto and Montreal. Operations centres and sales offices across Canada.
Manufactures commercial chinaware mainly in the United States. Markets include commercial and institutional segments of the food service industry.	Head office: Syracuse, New York. Plants are located in Syracuse, Pennsylvania and Quebec.
Raises monies through bank loans, short term promissory notes and medium and long term debt in order to provide financing for various companies in the Canadian Pacific group. Also active in domestic and international money markets.	Head office: Toronto.
Provides corporate insurance services and international reinsurance. Also offers range of financial, accounting and management services to offshore companies.	Head office: Hamilton, Bermuda.
Provides international consulting in engineering, economics and management in the areas of transportation, communications, hotels and resource development.	Head office: Montreal. Offices in Canada and overseas.

To the Shareholders



F. S. Burbidge

The past year was one of unsatisfactory earnings performance for Canadian Pacific. At $246.7 million, consolidated net income was $130.2 million less than in 1984. On a per Ordinary share basis, and after adjusting for the share split in May 1985, earnings amounted to $1.11 in 1985, down $0.64 from the previous year. Net income was reduced by approximately $28 million because of a change in the basis of accounting for investment tax credits as recommended by the Canadian Institute of Chartered Accountants effective January 1, 1985. CP Limited's non-consolidated earnings – mainly income from CP Rail, CP Telecommunications and dividends from subsidiaries – amounted to $233.6 million, or $1.05 per Ordinary share, in 1985. This was a decrease from $263.2 million, or $1.22 per share, in 1984. The Company's dividends, which are based on these earnings, were $0.48 per Ordinary share in 1985 and $0.47 per share in 1984.

While the North American economy experienced growth during the year, several factors prevented the Company's results from showing improvement. Major problems included the drought in the Prairie Provinces during the past two years and lower demand for Canadian grain in international markets which caused a serious shortage of grain traffic for CP Rail; weakened market conditions for many resource-related commodities, especially zinc, lead, potash and pulp, which impacted both the Company's resource subsidiaries and rail operations in Canada and the United States; and airline traffic growth and yield improvement that were insufficient to cover rising costs. In addition, the Company's results reflected a write-down by Cominco of certain investments because of uncertainties regarding metal prices. There were however sources of improvement, the most significant being westbound North Atlantic container shipping rates which recovered further during the year and steel product shipments which were ahead of the previous year.

Beyond 1985, two main issues dominate the near term future. One is deregulation of the transportation sector in Canada, a move which began in 1985 with the Federal Government's proposals embodied in *Freedom to Move*. Expected to be completed late in 1986, this will result in dramatic changes for CP Rail, Canadian Pacific Air Lines, Canada Maritime Limited and CP Trucks. With the outcome certain to result in more intense competition, the Company's transportation businesses will continue to develop strategies to make the transition to a deregulated environment. The other significant issue in the future is the expected continued weakness of commodity selling prices, a reflection of slower economic growth, tougher competition, world-wide excess capacity and currency considerations and relationships.

These prospects demonstrate an increasing need for the Company to remain sensitive and responsive to problems and opportunities that will exist. Expected changes in the external environment will not on their own restore the Company's full earnings potential.

During 1985 action was taken on many fronts to return the Company to a level of profitability that satisfies shareholders' expectations. The most significant step was the merger of CP Limited and Enterprises, effective December 6, 1985, following approvals of the shareholders of both companies. The basic reasons for the merger are to integrate the businesses, operations and managements of the companies, and to permit more effective coordination and utilization of their financial resources and assets. In particular, the merger enables CP Limited to have a closer involvement in financing, in major capital projects and in new ventures or divestment by its entities.

W. W. Stinson

The Company's businesses focused on careful growth through internal expansion and renewal, and acquisitions. Major developments in 1985 included CP Rail's continuing work on the Rogers Pass tunnel and double tracking project in the Canadian Rockies; the acquisition of the Milwaukee Road by Soo Line and of a majority interest in Nordair Inc. by Canadian Pacific Air Lines; the search for additional reserves in Canada, the United States and the North Sea and the purchase of interests in a gas and condensate unit in the United States by PanCanadian Petroleum; the advancement of Cominco's plans to develop a large zinc-lead-silver property in Alaska, to modernize its Trail, B.C. lead smelter, and to construct a nitrogen plant in Alberta; the resumption of construction of the Algoma Steel tube mill; and the purchase by Marathon Realty of a large interest in a number of shopping centre properties in the United States.

Intensive cost control continued throughout the Company and further consolidation and reorganization of operations took place in 1985. Soo Line merged its railroad and the Milwaukee into a single road by year-end. The integration of Eastern Provincial Airways, acquired in 1984, into Canadian Pacific Air Lines' network has been almost completed. Cominco restructured its operations into two main divisions – metals, and chemicals and fertilizers – in order to optimize its decentralized organization. A series of amalgamations reshaped CIP into a more efficient business.

Strengthening and moulding the Company's asset mix also involved divestitures during the year. Baker Commodities, Inc. was sold in January. In February CIP Inc. sold CIP Daxion Inc., a distributor of paper and packaging products. Theresa Friedman & Sons, Inc. was sold in June. Maple Leaf Mills disposed of its interest in a vegetable oil business in July. AMCA has decided to sell a number of its smaller operations. CP Ships disposed of five vessels, and CP Hotels and Marathon Realty made divestments in areas not meeting certain profit and investment criteria. Also, negotiations are under way to sell Chateau Insurance Company.

Much remains to be done to bring our various businesses up to an adequate return. Further steps will be taken to strengthen those businesses that can be improved and encourage the better performers to grow profitably. However, should this be insufficient in enhancing Canadian Pacific's performance, appropriate changes will have to be considered in order to achieve returns that will result in investors continuing to value the Company highly.

The Directors wish to express their appreciation of the hard work and loyalty displayed by employees without whose support the Company could not deal effectively with current challenges.

For the Directors,

W. W. Stinson

President and
Chief Executive Officer

F. S. Burbidge

Chairman

Montreal, March 10, 1986

Rail Transportation

CP Rail

in millions	1985	1984	1983
Revenues	$2,519.1	$2,559.1	$2,429.7
Expenses	2,385.7	2,373.6	2,245.7
Net income	133.4	185.5	184.0

CP Rail's net income declined in 1985 largely because of reduced grain traffic, the result both of recent drought in the Prairie Provinces and lower demand in international markets for Canadian grain.

Net income for 1985 was also reduced by approximately $16 million because of a change recommended by the Canadian Institute of Chartered Accountants in the method of accounting for investment tax credits, effective January 1, 1985. The change requires that tax credits be taken into income over the life of an asset, instead of being credited in full to income in the year of acquisition. Although the total benefit over the life of the asset is the same, the relatively long life of railway assets means tax credits are recognized much more slowly under the new accounting policy.

Total revenues of CP Rail in 1985 were down $40.0 million from 1984. The decline in export grain revenues more than offset the positive effect of improved rates earned from other freight. Major gains in revenue came from transporting containers and automotive products. The revenue increase of $129.4 million in 1984 over 1983 reflected mainly an 8% rise in traffic volume and increased rates. Revenues from coal traffic in 1984 were up significantly over 1983.

CP Rail's 1985 expenses were up $12.1 million over 1984. Interest charges increased and operating expenses rose marginally due to higher labour rates and increased prices for fuel and other materials. The effect of these rate and price increases was contained by strenuously applied cost controls. Expenses in 1984 were $127.9 million more than in 1983, due chiefly to higher costs, especially of labour, fuel and other materials, partially offset by productivity improvements and cost control.

In 1985 and early in 1986, CP Rail reached agreements with its labour unions on new two-year contracts extending to the end of 1986. The settlements provided for general wage increases of 4% per year and certain other benefits.

Moves by the Federal Government to deregulate railway pricing and change operating regulations are creating some uncertainty, as indicated in the railway's submission to the House of Commons Standing Committee on Transport. In light of this thrust, CP Rail is placing particular emphasis on marketing strategies, cost controls and the management of assets, including capital spending.

Soo Line Corporation

in millions	1985	1984	1983
Revenues	$848.1	$430.4	$374.1
Expenses including minority interest	856.8	417.5	362.4
Net income (loss)	(8.7)	12.9	11.7

Soo Line doubled its size and expanded its railroad into new markets following acquisition of the Milwaukee Road on February 19, 1985.

CP Limited's loss from Soo Line in 1985 was a sharp contrast to profits in the two previous years. The chief reasons for the disappointing performance were reduced traffic volume for Soo's combined railroads and higher interest expense associated with financing the Milwaukee Road acquisition.

Giant "mole" bores 6.7-metre-wide hole through eastern section of CP Rail's Mount Macdonald tunnel, the longest railway tunnel in North America, under construction in British Columbia's Selkirk Mountains.

Soo Line's total revenues in 1985 were up $417.7 million over 1984, due to the inclusion of the Milwaukee. Traffic volume for the combined companies fell 8%, due principally to reduced carloads of farm and food products, pulp and paper, and scrap. The revenue increase of $56.3 million in 1984 over 1983 was due largely to a 13% increase in freight volume.

The acquisition of the Milwaukee also contributed mainly to an expense increase of $456.5 million from 1984 to $863.7 million in 1985. Wage and material price increases were moderate and, on average, prices of diesel fuel were actually less than in 1984. Interest expense rose by $40 million, again because of the Milwaukee acquisition. Expenses in 1984 were up $54.0 million over 1983, due largely to the growth in traffic volume, higher labour costs and increased equipment rentals.

Since the acquisition of the Milwaukee, major changes were made to integrate the operations of this U.S. mid-western railroad. Following a financial restructuring late in the year, Soo Line merged its railroad and the Milwaukee to create a single road at year end. This, together with increased marketing efforts and a modest upturn in traffic, should produce a recovery in Soo Line's results.

CP Air

in millions	1985	1984	1983
Revenues	$1,407.2	$1,234.2	$905.4
Expenses including preference share dividends	1,416.1	1,220.4	921.8
Net income (loss)	(8.9)	13.8	(16.4)

Following a significant recovery in 1984, Canadian Pacific Air Lines, Limited incurred a loss in 1985. While the performance of the hotel division was strong, airline results deteriorated as increases in yields and passenger traffic were insufficient to compensate for the higher costs attributable to increased capacity and cost escalation.

Airline Operations
A loss of $26.6 million was incurred in 1985. This compares with a profit of $2.9 million in 1984 and a loss of $15.0 million in 1983. Included in these results were net losses from Eastern Provincial Airways of $8.3 million in 1985 and $2.7 million in 1984 for the four months following its acquisition effective September 1 of that year.

Total airline revenues amounted to $1,128.4 million in 1985, $980.1 million in 1984 and $888.3 million in 1983. Of the increase of $148.3 million over 1984, $83.6 million was attributable to the inclusion of Eastern Provincial. The balance of the increase came primarily from fare improvement, especially on the Transcontinental and Orient routes, and to a lesser extent, higher passenger traffic. In addition, revenue from charter and mail services rose, but a largely offsetting reduction occurred in cargo revenues. There was also a decline of $8.9 million in gains on disposal of property. The revenue increase of $91.8 million in 1984 compared with 1983 was mainly the result of a significant rise in passenger traffic.

Expenses totalled $1,151.9 million in 1985, up from $973.8 million in 1984 and $900.0 million in 1983. Of the increase of $178.1 million in 1985 over 1984, $89.2 million was attributable to the inclusion of Eastern Provincial. The expense components showing the largest increases were fuel and labour. Increased consumption, higher unit fuel costs due to increased Government taxes and levies, and a reversal in 1984 of a fuel tax accrual were the major reasons for the additional fuel expenses. Labour costs were up due mainly to increased traffic and additional capacity and to wage increases negotiated during 1985. Commission expense and depreciation charges also exceeded 1984 levels. Expenses in 1984 were up $73.8 million over 1983, of which $33.8 million was in respect of Eastern Provincial and the balance came largely from a provision for income taxes, increased provision for exchange losses on debt and higher interest expense. Operating expenses were maintained at 1983 levels, despite inflationary pressures and an increase in capacity.

Deregulation of the domestic airline industry poses a major challenge in the period ahead. In its efforts to ensure success in the new environment, Canadian Pacific Air Lines is vigorously pursuing cost reduction and productivity improvement programs in all areas of its activities, is intensifying marketing efforts to stimulate traffic, improve yields and develop customer loyalty, and is concentrating on controlled expansion.

As part of ongoing efforts to strengthen its competitive position, the airline has virtually completed the integration of Eastern Provincial into its national and international route networks and has begun to rationalize the administration and organization of its Atlantic Canada operations. Late in the year the airline secured a larger market presence in Ontario and Quebec by acquiring control of Nordair Inc.,

Canadian Pacific Air Lines DC-10-30, the first plane painted in the airlines' new colors, outside hangar at operations centre in Vancouver.

a major regional carrier; the acquisition is subject to regulatory approval. The two airlines have begun to coordinate marketing, sales and operations activities and to integrate schedules to provide traffic to and from CP's long-haul domestic and international routes. Canadian Pacific Air Lines inaugurated service to New Zealand during 1985, and is looking at further expansion in the Pacific Rim market.

In its drive to improve operating flexibility and aircraft utilization, Canadian Pacific Air Lines embarked in 1985 on a fleet standardization program that will eventually result in a fleet consisting of only two types of aircraft, the Boeing 737 and the DC-10. In line with this strategy, the airline reached agreement to sell its four Boeing 747's and acquire four DC-10-30's owned by another airline. The exchange of one aircraft was made in December and the remaining exchanges will be made during 1986. In order to reduce debt, the airline completed an agreement early in 1986 to sell the three new Boeing 737-300's delivered in 1985 and replace them with three lower cost 737-200's. The airline also cancelled its order for the last five 737's which were to be delivered in 1987 and 1988 and intends to retire its Hawker Siddeley aircraft in 1986. As of December 31, 1985 the fleet totalled sixty-eight aircraft, consisting of three Boeing 747's, nine DC-10's, forty-five Boeing 737's, four Hawker Siddeley 748's, five Fairchild FH-227's and two Lockheed Electra L188's.

Hotel Operations

CP Hotels completed another successful year with record net income of $17.7 million, up from $10.9 million in 1984 and $7.3 million in 1983. Included in 1985 earnings was $5.7 million representing the net after tax compensation for the termination of a management contract. Results in 1983 included income for eleven months of $8.7 million which was included in Enterprises' results, and a loss of $1.4 million for December which was absorbed by CP Air following the acquisition on December 1.

Hotel revenues amounted to $298.5 million in 1985, up from $265.8 million in 1984 and $244.1 million in 1983. Revenue growth over the three-year period was provided by increased occupancy levels and improved room rates in both domestic and foreign operations.

In line with increased business activity, expenses of CP Hotels rose to $280.8 million from $254.9 million in 1984 and $236.8 million in 1983.

In directing its growth towards that of an international chain of first class hotels, CP Hotels continued its program of major renovation, upgrading, consolidation and strategic expansion during 1985. Operations were expanded in West Germany with the opening of the Bremen Plaza, a leased property, in March 1985. Early in 1986 CP Hotels began to manage the Lake Okanagan Resort in Kelowna, B.C. and reached an agreement to manage a hotel under construction in the Canadian Rockies to be completed in time for the 1988 Winter Olympics. The company ceased management of a hotel in Israel at the end of 1985. With regard to the Red Oak Inn operations in Ontario, preliminary agreement was reached to sell the two owned properties and to cease management of the third in 1986. CP Hotels also has arranged to sell its Skylon Tower restaurant in Ontario in 1986.

CP Ships

in millions	1985	1984	1983
Revenues	$352.9	$340.2	$233.6
Expenses including minority interest	372.0	363.8	307.6
Net income (loss)	(19.1)	(23.6)	(74.0)

The reduction in losses from CP Ships over the past three years was achieved largely on the strength of Container Operations.

Container Operations

Container Operations had record net income of $13.4 million in 1985, up from income of $2.1 million in 1984, and a loss of $33.4 million in 1983. The 1983 loss included write-offs of approximately $11 million relating to the withdrawal from the U.S. east coast container service and to reorganization of the Montreal-Western Europe service. In addition to the write-offs, the U.S. service accounted for about $13 million of Container Operations' 1983 loss. Included in income for 1985 was a provision for a loss of $6.4 million on disposal of a container vessel currently on charter to a third party.

The recovery in results since 1983 was due not only to the major reorganization of container services, but also to increased westbound traffic and the strengthening of the Conferences following the harmful 1983 rate war. The latter two developments led to significantly stronger rates, particularly on westbound traffic. After regaining some ground in 1984, average rates on eastbound traffic remained relatively static in 1985 and well below pre-1983 levels. Eastbound volumes continued to be constrained by the competitive environment and the effects of a strong U.S. dollar.

Two Canada Maritime container ships, the CanMar Europe (foreground) and the CanMar Ambassador, at Racine Terminal in Montreal.

The consolidations and rationalizations of the past few years should contribute to another good year for Container Operations despite an expected softening in general trade conditions and some erosion of rate levels.

Bulk Shipping Operations

Losses from Bulk Shipping amounted to $32.5 million in 1985, $25.7 million in 1984 and $40.6 million in 1983. Included in these figures were net losses on sales of vessels amounting to $6.0 million in 1985, $3.9 million in 1984 and $10.8 million in 1983. Over the period a total of eight vessels were sold – four in 1985, three in 1984 and one in 1983 – reducing the fleet to thirty vessels at year-end 1985.

Revenues amounted to $91.5 million in 1985, $101.0 million in 1984 and $94.0 million in 1983. The decrease in 1985 from 1984 was attributable to the reduced fleet size and depressed shipping markets, partially offset by income from settlement of a charter dispute. The additional revenues in 1984 compared with 1983 reflected a slight improvement in shipping markets.

Expenses, excluding losses on vessel sales, were $118.0 million in 1985, $122.8 million in 1984 and $123.8 million in 1983. In 1985, the decrease in expenses

was primarily attributable to reduced interest costs, since operating expenses remained virtually unchanged over the three-year period.

Significant over-capacity for both tankers and dry bulkers continues to plague the industry. In general shipping markets are not expected to improve in 1986. Bulk Shipping will continue its strategy of restraining operating expenses, carefully managing its resources, slimming down its fleet as worthwhile opportunities arise, and adopting a more aggressive marketing thrust less reliant on the spot market.

CP Trucks

in millions	1985	1984	1983
Revenues	$385.7	$373.4	$333.9
Expenses	382.9	370.3	328.0
Net income	2.8	3.1	5.9

Canadian Pacific Express & Transport Ltd.

Income from CP Express & Transport amounted to $1.5 million in 1985, compared with $1.7 million in 1984 and $5.2 million in 1983. The reduction in income over the three-year span was attributable to the General Commodities division, as opposed to the Specialized Services group where the situation has been favourable.

For General Commodities, the past few years were very difficult. Despite the benefit of cost reductions, operations suffered from a loss of revenue caused by depressed rate levels and volume contraction. Over-capacity in the trucking industry has been aggravated by the existence of smaller, lower-cost competitors and the penetration of the domestic market by large United States carriers.

The performance of the Specialized Services division has been particularly strong. Volumes have grown steadily, due to increased market coverage and higher market share stemming from both aggressive marketing and acquisitions. In 1985 a company engaged in commercial moving was acquired, and in 1984 five regional trucking companies were purchased.

Looking ahead, 1986 should be another year of expansion and profitability in the Specialized areas. The General Commodities group, however, is expected to face continued over-capacity and rate discounting, as well as uncertainties surrounding deregulation, dangerous goods legislation and insurance. The company's emphasis will be on further rationalization of facilities and on increased capacity utilization through more intense marketing efforts.

CanPac International Freight Services Inc.

Net income of $1.3 million compares with $1.4 million in 1984 and $701,000 in 1983. In 1985, depressed results of the bulk storage operation more than offset improvement in other areas. In comparing 1984 with 1983, higher volumes and better prices accounted for the earnings increase.

Producing wellhead pumps heavy oil from reserves underlying PanCanadian Petroleum lands in Lindbergh field in east-central Alberta. Oil is stored in tanks in background.

Oil and Gas

PanCanadian Petroleum Limited

in millions	1985	1984	1983
Revenues	$1,137.1	$1,055.4	$884.4
Expenses including minority interests	948.5	872.6	737.1
Net income	188.6	182.8	147.3

PanCanadian's earnings continued to show strength, despite increasingly unstable market conditions.

Revenues of PanCanadian in 1985 were $81.7 million higher than in 1984 as a result of increased production of all products. Improved prices for crude oil and plant products were offset by reduced prices for natural gas. In 1984, revenues were up $171.0 million over 1983, due to increased production and higher prices for all products.

Late in 1984 and during 1985 PanCanadian purchased investment tax credits and income tax losses from affiliated companies. As a result of these transactions, PanCanadian's earnings benefited from gains of $2.1 million in 1984 and $11.5 million in 1985. A further gain of $14.7 million arising from the 1985 purchase will be realized in 1986.

PanCanadian's expense increases since 1983 resulted from higher operating costs from a greater number of producing properties, increased volumes of extracted natural gas liquids, increased depletion charges and higher taxes.

The year 1985 marked significant changes in the field of energy pricing and taxation in Canada. Late in March the governments of Canada, Alberta, Saskatchewan and British Columbia reached an agreement, which resulted in the deregulation of crude oil prices effective June 1, 1985, provided for the phasing-out of the Petroleum and Gas Revenue Tax, and the elimination of the Petroleum Incentive Program and a number of special charges levied against the petroleum industry. In addition, regulations concerning exports of crude oil from Canada were relaxed. At the end of October 1985 the Federal Government and the three Western provinces agreed that, effective November 1, 1986, natural gas prices in interprovincial and export trade will be determined by negotiations between producers and purchasers, with the export sales being subject to specified floor prices. The producing provinces also modified their royalty and tax regimes enabling the benefits accruing from the agreement to flow through to the producers.

Since deregulation, Canadian oil prices have declined in step with world oil prices. In common with the industry, PanCanadian is concerned that further price deterioration may seriously jeopardize major resource projects in Canada and reduce present levels of exploration and development activity.

Mines and Minerals

Cominco Ltd.

in millions	1985	1984	1983
Revenues	$1,494.0	$1,624.3	$1,387.8
Expenses including minority interests and preferred share dividends	1,543.4	1,620.4	1,408.9
Net income (loss)	(49.4)	3.9	(21.1)

The downturn in metal prices that began late in 1984 continued throughout 1985. This factor, together with a write-down in 1985 of certain investments, led to the substantial loss from Cominco during the past year. The write-down, which amounted to $36 million after tax, was made because of uncertainty surrounding metal prices and their effect on the remaining life of the properties of Pine Point Mines Limited and Vestgron Mines Limited, two of Cominco's subsidiaries.

Total revenues of Cominco in 1985, including earnings from its 40% interest in Fording Coal, were $130.3 million below 1984, mainly because of depressed selling prices of zinc, lead, silver and gold. Except for copper, metal prices were consistently below the levels attained in 1984. Cominco's revenues were also lower because of decreased volumes of zinc concentrates, gold and ammonia, and lower

Cominco miner operates production blast hole drill in Sullivan Mine at Kimberley, B.C.

volumes and reduced revenues from potash. Revenues in 1985 included a net gain of $9.4 million on the sale of part of Cominco's interest in Pine Point Mines. In 1984 there was a net gain of $5.2 million which arose primarily from the sale of an interest in an oil recovery project. The revenue increase of $236.5 million in 1984 over 1983 resulted from improved selling prices for refined zinc, zinc concentrates and refined lead, together with increased volumes of all refined metals and metal concentrates, except lead. Revenue from chemical and fertilizer products also increased.

Cominco's expenses in 1985, excluding the write-down, amounted to $1,560.5 million, a decrease of $34.9 million from 1984 due principally to reduced production costs reflecting lower raw material costs and productivity improvements and to income tax credits related to Cominco's losses. An expense increase of $164.5 million in 1984 over 1983 was attributable to the higher sales volumes and to increased depreciation and depletion charges arising from the operation for a full year of projects completed in 1983.

Due to oversupply of zinc in world markets, Cominco announced late in 1985 that there would be production cutbacks at several of its properties in 1986. If weak market conditions persist, further reductions may be implemented. As for lead, excess producer inventories in North America continue to dampen market conditions. Fertilizer sales are not expected to show much growth in view of increased competition, sluggish growth in demand in Canada and lower U.S. consumption. In response to these market conditions, Cominco is reducing inventories, intensifying cost reduction programs, concentrating production at the most efficient operations and limiting capital expenditures.

Cominco is proceeding with plans to develop the Red Dog zinc-lead-silver property in Alaska. During 1985, a bill was passed by the Alaska State legislature paving the way for a government agency to finance the construction of a road from Cominco's proposed mine to the coast and of a port to accommodate the shipment of zinc and lead concentrates. Negotiations between Cominco and the government agency on an agreement are currently underway.

Early in 1986 Cominco and Lornex Mining Corporation Limited announced that agreement in principle had been reached to combine their copper assets and operations in the Highland Valley area of British Columbia. The combination would create one of the world's largest single producers of copper concentrate with an estimated annual output of concentrate containing in excess of 400 million pounds of copper and significant quantities of silver and gold.

Fording Coal Limited

in millions	1985	1984	1983
Revenues	$270.2	$279.6	$217.2
Expenses including minority interests	262.8	273.2	215.3
Net income	7.4	6.4	1.9

Despite declining coal selling prices and a drop in demand, Fording Coal has been able to maintain stable earnings.

Fording Coal's net income in 1985 included a net gain of $4.1 million on the sale of coal leases. In 1984 there was a net gain of $2.2 million on the sale of coal leases and certain equipment.

Fording's revenues declined only $9.4 million in 1985 from 1984, as reduced selling prices of coal and lower volumes to Japanese steel mills were largely offset by increased shipments to non-Japanese customers. The lower sales to Japan reflected not only reduced demand but also the fact that 1984 volumes were unusually high because of the recovery of volume lost during a 1983 mineworkers' strike. In addition to recovery of volumes, the revenue increase of $62.4 million in 1984 over 1983 reflected market diversification, partially offset by the effects of lower coal prices.

Total expenses of $253.1 million in 1985 were down $11.1 million from 1984, reflecting productivity improvements. An increase in expenses of $51.5 million in 1984 over 1983 resulted from the additional volumes, partially offset by improved productivity and lower interest expense.

CP Limited recently reached agreement to purchase Cominco's 40% interest in Fording Coal. The purchase is expected to be completed in the first quarter of 1986.

Fording Coal will continue to build on its fundamental strengths – high quality reserves and its reputation as a stable, efficient coal producer. Intense marketing efforts will be maintained to increase volumes to other markets.

Processed Minerals Incorporated

Income from Processed Minerals, which operates in the United States, amounted to $3.4 million in 1985, compared with $3.0 million in 1984 and $1.6 million in 1983. The improvement in 1985 came principally from higher prices and better mix of wollastonite products partially offset by lower volumes of wollastonite, evaporated salt products and cattle feed. In 1984, compared with 1983, higher prices and greater volumes of evaporated and rock salt and of wollastonite more than compensated for reduced sales of solar salt and cattle feed. Also, in 1983 results included a write-down in the carrying cost of certain fixed assets.

Steep Rock Resources Inc.

Steep Rock contributed earnings of $319,000 in 1985, $214,000 in 1984 and $593,000 in 1983. Earnings in 1984 were at break-even before an extraordinary gain and in 1983 earnings included a substantial contribution from investment income. Results of the calcite division, Steep Rock's major business, showed steady improvement over the three-year period.

Forest Products

CIP Inc.

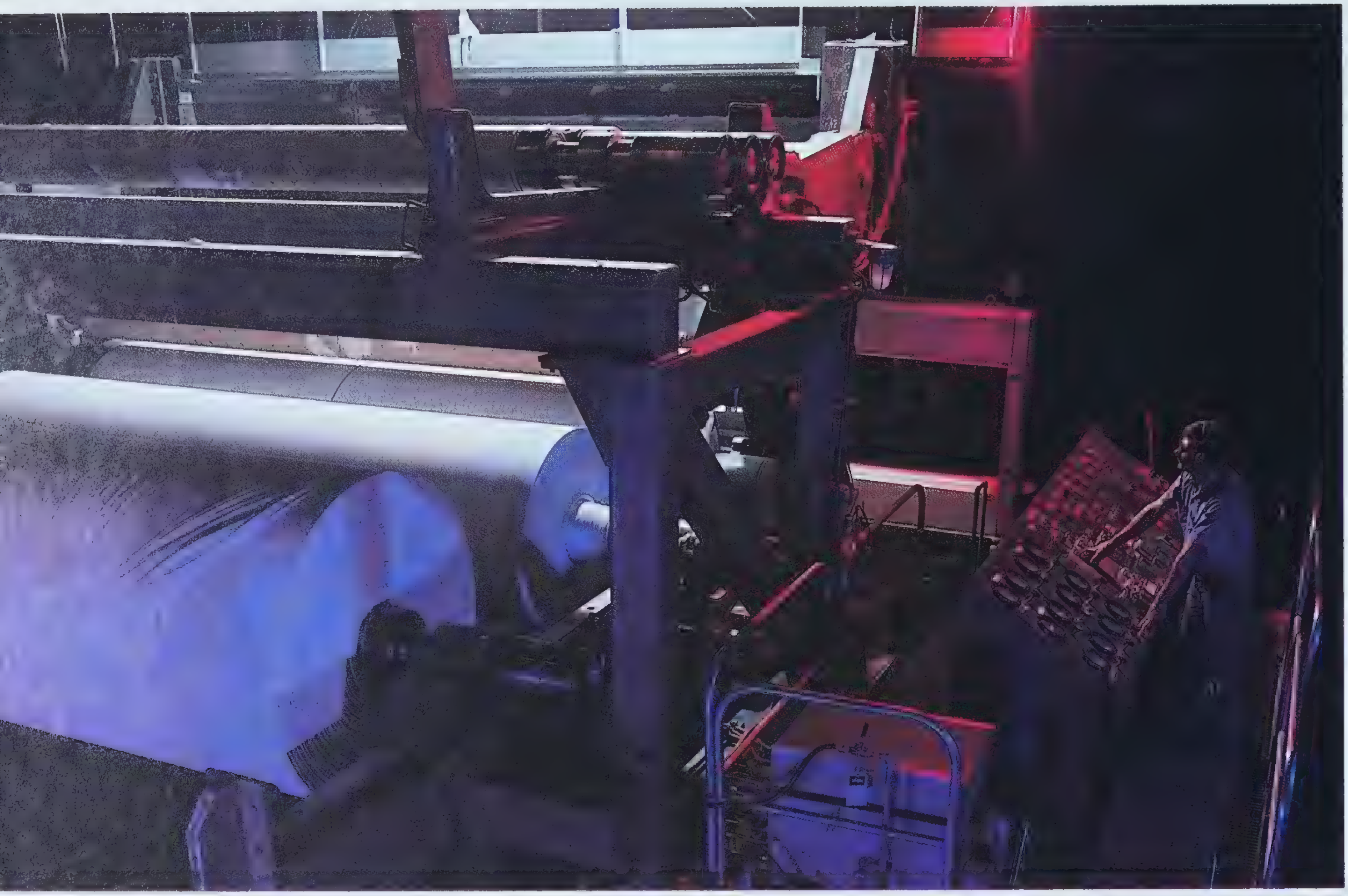
in millions	1985	1984	1983
Revenues	$1,569.8	$1,594.6	$1,334.8
Expenses including minority interests	1,586.4	1,608.4	1,400.4
Net income (loss)	(16.6)	(13.8)	(65.6)

Following a significant improvement in 1984, the net loss from CIP Inc. increased in 1985. Losses for 1984 and 1983 were restated to include Pacific Forest Products Limited which was amalgamated with CIP in 1985.

CIP's results in 1985 were affected by a significant deterioration in the performance of the pulp business, as excess supply led to severely reduced prices. On the other hand, improvement occurred in the company's west coast log and lumber operations reflecting strengthening markets and increased cost efficiencies, and in the newsprint division where, despite lower volumes, results benefited from the effects of a weak Canadian dollar in relation to the U.S. dollar. The marked reduction in the net loss from CIP in 1984 compared with 1983 was due chiefly to higher volumes and better selling prices for most products, particularly newsprint, and to the inclusion in 1984 of tax-related benefits.

The tax-related benefits of 1984, which arose by means of reorganizations in the Forest Products sector late that year, included a gain of $11.0 million on the sale to PanCanadian of investment tax credits and tax losses by NBIP, a subsidiary

High-speed paper-making machine at CIP's Facelle plant in Toronto manufactures base sheet for variety of Facelle Royale tissue products.



of CIP. In addition, the sale of tax losses to PanCanadian enabled NBIP to recognize the tax effects of its 1984 loss which increased CIP's earnings by $7.5 million. There were also gains totalling $13.8 million due to the recognition of the tax effects of losses incurred by Tahsis and Pacific Forest Products. In 1985, CIP realized a further gain of $10.5 million on the sale of the tax losses in 1984, and in 1986 will post a gain of $9.6 million arising from the sale in 1985 of all of its tax losses and investment tax credits to PanCanadian.

Although it appears that excess world-wide capacity in newsprint markets will continue, CIP expects its newsprint business to benefit from higher operating rates and increased emphasis on specialty grades. In pulp operations, cost efficiencies together with some price recovery should result in an improvement.

Great Lakes Forest Products Limited

in millions	1985	1984	1983
Revenues	$591.2	$603.3	$496.5
Expenses including minority interests	591.4	596.5	500.3
Net income (loss)	(0.2)	6.8	(3.8)

Following a turnaround in 1984, earnings from Great Lakes fell to break-even levels in 1985.

Total revenues in 1985 declined $12.1 million from 1984. Despite the benefits of a significantly higher exchange premium on U.S. dollar sales and

increased shipments of fine papers and waferboard, Great Lakes' revenues fell mainly because of depressed selling prices, especially for kraft pulp and fine papers. Shipments of newsprint, kraft pulp and stud lumber were also lower. As additional North American capacity came on stream and offshore competition intensified, pulp prices dropped to 1979 levels by the end of 1985 and substantial quantities were trading in world markets at even lower prices. Markets for fine papers did not strengthen enough in 1985 to permit improved prices. As for newsprint, competitive conditions resulted in several unsuccessful attempts to implement a modest price increase. The revenue increase of $106.8 million in 1984 over 1983 was attributable largely to better selling prices for newsprint, kraft pulp and fine papers and higher shipments of all products.

Despite lower production levels, Great Lakes' expenses, excluding minority interest, of $591.0 million in 1985 were up $5.5 million over 1984 due largely to higher labour, material and selling costs. Market conditions necessitated the temporary shutdown of kraft pulp, stud lumber and woodlands operations during 1985. While there were no major shutdowns of newsprint, fine paper and waferboard facilities, newsprint operations experienced some downtime for major capital improvements. An increase in expenses of $79.1 million in 1984 compared with 1983 was the result of the higher level of shipments together with inflationary increases in manufacturing costs.

Late in 1985 Great Lakes announced that construction of a newsprint mill, in which it has a joint interest, in Washington State will be delayed until market conditions improve. Some recovery in pulp, newsprint and fine paper markets is expected to occur in the second half of 1986. Great Lakes will continue to control costs, improve productivity and product quality and hold capital expenditures to minimum levels.

Steel and Industrial Products

The Algoma Steel Corporation, Limited

in millions	1985	1984	1983
Revenues	$1,175.7	$1,101.4	$841.1
Expenses including minority interests and preference share dividends	1,183.3	1,127.8	900.2
Net income (loss)	(7.6)	(26.4)	(59.1)

While depressed selling prices were a major hindrance, Algoma Steel made steady progress in reducing its losses over the period through mainly an aggressive cost reduction program and increased shipments of steel products.

Total revenues of Algoma, including its share of AMCA International's results, increased from $841.1 million in 1983 to $1,175.7 million in 1985, due chiefly to volume growth and an improved product mix, since selling prices remained weak. Following an increase of 11% in 1984 over 1983, shipments of steel products were up another 6% in 1985. Algoma's revenue growth was also a reflection of AMCA's improved performance.

Algoma's expenses of $1,178.7 million in 1985 were up from $1,147.2 million in 1984 and $969.8 million in 1983. The effects on expenses of higher volume over the period were offset to a great extent by cost curtailment.

Algoma Steel's fully-computerized, 166-inch plate mill produces plate up to 153 inches wide, including heat treated and special quench and tempered plate.

During 1985, Canadian market demand was reasonably strong for seamless tubulars, sheet and strip products and, in the latter half, for wide flange shapes. Demand for plate and rails, however, remained weak throughout the year. Markets in the United States were highly competitive with extensive discounting by domestic and offshore suppliers.

The outlook indicates little evidence of sustained growth in North American steel markets and, as a result, weak prices should persist. There is also concern over the threat of offshore steel imports as well as low oil prices over an extended period. Algoma's strategy for the future involves the pursuit of cost control and enhancement of product range and quality. In 1986 progress toward these objectives will be achieved through the completion of Algoma's rail mill modifications and the start-up of the new tube mill.

AMCA International Limited

in millions	1985	1984	1983
Revenues	$2,146.9	$1,952.6	$1,624.8
Expenses including minority interests and preferred share dividends	2,140.7	1,953.5	1,631.3
Net income (loss)	6.2	(0.9)	(6.5)

Included in income from AMCA in 1985 was $7.1 million, representing CP Limited's share of Enterprises' dividend income from its holding of AMCA's preferred shares issued in November 1984 and July 1985. The comparable amount in 1984 was $0.9 million.

AMCA's results showed gradual improvement during the past three years. Operations benefited from volume growth, cost reductions and rationalizations. Special items included in AMCA's results were a refund in 1984 of a surplus in its Canadian pension fund amounting to $12.7 million, and provisions for after-tax losses arising from the write-off of discontinued businesses amounting to $4.6 million in 1984 and $27.0 million in 1983.

AMCA's revenues in 1985 were up $194.3 million over 1984, as volumes increased, particularly in the compaction, construction equipment and engineering operations; selling prices improved only marginally. In 1984, revenues increased $327.8 million, due to higher volumes of construction equipment, metal buildings and machine tools, partially offset by severe price discounting, particularly for machine tools and construction equipment.

The expenses of AMCA amounting to $2,126.1 million in 1985 were up compared with $1,959.0 million in 1984 and $1,681.7 million in 1983. The increases due to volume growth were mitigated by the effects of cost reduction and consolidation programs, particularly in the crane and excavator and Canadian steel fabrication operations.

Consistent with its desire to focus on core businesses, AMCA decided to sell a number of its smaller operating units. The bulk have recently been sold, and the sale of the remaining units should be completed shortly.

AMCA will continue to concentrate on consolidation and related productivity improvement and cost reduction programs. These measures, together with the benefits of a significant order backlog at the end of 1985, augur well for further improvement in AMCA's results.

Real Estate

Marathon Realty Company Limited

in millions	1985	1984	1983
Revenues	$279.6	$277.6	$274.1
Expenses including minority interests	259.5	258.5	256.0
Net income	20.1	19.1	18.1

Marathon Realty continues to post solid growth, and earnings from that company reached a new high in 1985.

Higher rentals from buildings more than offset a decline in proceeds from property sales, resulting in an increase of $2.0 million in Marathon's 1985 revenues compared with 1984. The shopping centre sector showed improvement as Marathon benefited from its share of stronger tenant retail sales and from the inclusion for a full year of revenue from a shopping centre acquired in Saskatchewan during 1984. Returns from office buildings were up, despite pressure on rental rates because of over-supply, due principally to the full-year effect of new properties which came on stream in Toronto and Atlanta, Georgia. In 1984, revenues increased $3.5 million over 1983 because of growth in rental income from buildings, especially shopping centres.

Marathon's increased expenses over the three-year period reflected higher building operating costs and, in 1985, increased interest charges because of new buildings.

Pecanland Mall in Monroe, Louisiana, is one of four operating regional shopping centres in the United States in which Marathon Realty has a majority interest.

Marathon's presence in the United States was strengthened with the acquisition late in 1985 of a majority interest in Herring Group Inc. which has holdings in four recently developed shopping centres and six sites for future malls in the southern United States. In Canada an office building project in Montreal was completed late in 1985, with most of the space being occupied by the early part of 1986. Marathon's asset rationalization continued primarily with the sale of a number of older industrial buildings which no longer met its investment criteria.

Marathon expects that its strategy of selective expansion and asset rationalization will continue to yield good results in 1986.

Maple Leaf Mills Limited

in millions	1985	1984	1983
Revenues	$887.4	$979.6	$1,031.3
Expenses including minority interests	880.3	968.8	1,020.8
Net income	7.1	10.8	10.5

The decline of $3.7 million in income from Maple Leaf in 1985 was due to a loss on the sale in 1985 of Maple Leaf's 50% interest in Maple Leaf Monarch Company, a vegetable oil business.

Excluding this factor, Maple Leaf's earnings over the three-year period showed gradual improvement. In 1985 earnings from Maple Leaf's divisions were in total little changed, however lower interest costs had a favourable impact. The improvement in 1984 over 1983 reflected better results from most divisions, partly offset by losses from international grain trading activities.

Maple Leaf's revenues in 1985 fell $92.2 million from 1984 due not only to the sale of the vegetable oil business, but also to a significant decline in grain prices and a sharp reduction in protein and tallow prices. Revenues were up in the flour and food product operations because of additional volume and higher selling prices for bakery products. The reduction of $51.7 million in 1984 revenues from 1983 reflected lower international grain trading activity.

The progressive decline in expenses over the past three years reflected the sale of the vegetable oil company in 1985 and lower grain sales.

Maple Leaf's outlook is for continued modest growth in earnings.

Baker Commodities, Inc.

Baker Commodities, which was sold in January 1985, contributed net income of $10.4 million in 1984, up from $2.3 million in 1983. The increase in 1984 reflected the inclusion in Baker's accounts of $9.8 million due to the elimination of a deferred tax balance in accordance with a change in the U.S. tax law.

CP Telecommunications

in millions	1985	1984	1983
Revenues	$174.5	$169.0	$157.5
Expenses	165.5	160.9	151.1
Net income	9.0	8.1	6.4

Earnings of telecommunication operations continued on an upward trend. The Company's share of CNCP's revenues increased by $5.5 million in 1985. This reflected mainly increased volume of data and voice services, partially offset by lower revenues from telex services due to a drop in usage. The revenue increase of $11.5 million in 1984 over 1983 came from both higher rates and greater volumes, particularly for Telex and leased services.

The increase in expenses in 1985 over 1984 was attributable largely to higher costs of leased facilities and labour. Increased costs of leased facilities and greater depreciation charges associated with the acquisition of new assets were the dominant reasons for the higher expenses in 1984 compared with 1983.

Monarch cake mix packages are filled on packaging line at Maple Leaf Mills grocery products plant in Toronto.

Late in 1985 CNCP submitted for review a decision made earlier in the year by the regulatory authority, which rejected CNCP's application for enhanced interconnection with the telephone companies' networks. If the review is successful, CNCP will provide a competitive long distance public telephone service, which would materially improve revenue growth.

Syracuse China Corporation

Income from Syracuse China of $4.4 million was up from $3.4 million in 1984 and $3.1 million in 1983. The increase in 1985 over 1984 was due largely to the inclusion for the full year of results of a chinaware company acquired late in 1984. Other positive factors over the three-year period were higher selling prices of chinaware and an improved product mix.

Financial and Miscellaneous

Canadian Pacific Securities Limited

Earnings from Canadian Pacific Securities showed a gradual reduction over the past three years – from $1.4 million in 1983, to $1.2 million in 1984 and $1.1 million in 1985.

Chateau Insurance Company

CP Limited's share of the loss incurred by Chateau Insurance amounted to $287,000 in 1985, compared with a loss of $339,000 in 1984 and net income of $274,000 in 1983. The deterioration in 1984 results reflected an increased provision for prior years' claims. In 1985, there was some improvement in the claims experience.

Corporate Activities

This category, which consists of interest, exchange and other corporate related revenue and expenses, accounted for losses of $28.9 million in 1985, $21.2 million in 1984 and $13.9 million in 1983.

Although there were tax benefits in 1985 related to the partnership between CP Limited and Algoma Steel for completion and upgrading of the Algoma tube mills, the loss from Corporate Activities was greater than in 1984, due mainly to lower interest income and to Enterprises' net gain in 1984 of $4 million on dissolution of two foreign subsidiaries.

The increase in the loss in 1984 over 1983 was largely the result of unfavourable effects of currency exchange fluctuations and higher interest charges.

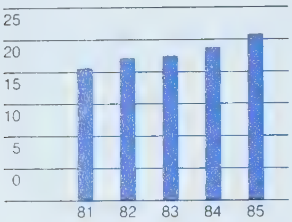
Others

Arion Insurance Company Limited, a wholly-owned subsidiary, recorded a considerable improvement in 1985. Its results were at the break-even level, compared with a loss of $10.8 million in 1984 when there was a significant provision for claims. A loss of $314,000 was incurred in 1983.

Canadian Pacific Consulting Services Ltd., a wholly-owned subsidiary, incurred a loss of $14,000 in 1985, compared with income of $610,000 in 1984 and a small loss in 1983. A decline in contract business and higher expenses were responsible for the downswing in 1985. The company's outlook for 1986 is encouraging in view of ongoing projects in Indonesia and Bangladesh as well as contracts in eleven other countries. The company is also increasing its share of railway signalling and transit projects in the United States.

Review of the Period 1983-1985

Total Assets
($ billions)



Over the past three years consolidated assets increased by $4.2 billion to $21.4 billion at December 31, 1985. The net investment in properties grew $3.4 billion, due to both internal expansion and acquisitions. Shareholders' equity rose $2.2 billion and minority interest in subsidiary companies decreased $540 million, reflecting mainly the acquisition of the minority interest in Enterprises upon the merger in December 1985. Long term debt increased $1,080 million and working capital declined $548 million.

Of the asset growth during the past three years, more than half occurred in 1985, with the chief reasons being the purchase of the Milwaukee Road and expansion of the asset base of CP Rail, PanCanadian and Marathon Realty. Assets of the latter two companies in 1985 also included adjustments to reflect the excess of the acquisition cost over the book value of the Enterprises shares acquired upon the merger with CP Limited.

Over the last three years, the ratio of cash flow to total debt went from 12.9% in 1983 to 23.2% in 1984 and 17.1% in 1985. After showing some improvement in 1984, the debt:equity proportion increased to 46:54 at year-end 1985. The Company's ability to cover interest expense was 1.4 times in 1983, compared with 2.4 times in 1984 and 1.9 times in 1985.

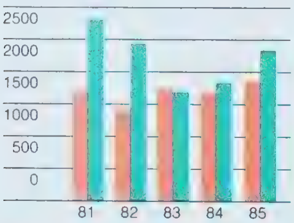
As can be seen in the Highlights on page one, the Company's rates of return on average capital employed and shareholders' equity declined in 1985 after improving in 1984. Shareholders' equity per Ordinary share was $20.65 at year-end 1985, up from $18.43 at the end of 1982.

Share Capital

After adjusting for the three-for-one share split effective May 17, 1985, the number of Ordinary shares outstanding, which remained unchanged in 1983 and 1984, increased from 214,986,840 at year-end 1984 to 297,705,933 by the end of 1985. Of the increase, 78,942,444 shares, equivalent to $1,401 million, were issued in exchange for common shares held by minority shareholders of Enterprises under the terms of the merger, and 3,776,649 shares, or $68 million, were issued through the Company's Dividend Reinvestment and Share Purchase Plan.

Liquidity and Capital Resources

Capital Expenditures and Cash from Operations
($ millions)



The Company's financing requirements continue to be met principally from internally generated cash, which in 1985 totalled $1,351 million. Although an additional $1,270 million came from the issuance of long term debt during 1985, debt repayment of $789 million was made. Also, $129 million was provided by the issuance of shares by subsidiaries. Prior to the merger in December Enterprises redeemed its preferred shares for $103 million.

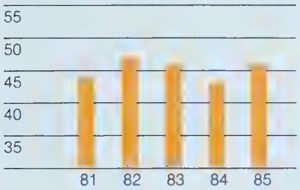
In supplementing cash from operations in 1985, CP Limited raised $213 million from two issues of debentures due in 1990 and 1993; early in 1986 the Company also arranged a Euroyen debenture issue for net proceeds of approximately $73 million. After debt repayments, Soo Line's net debt increased $422 million in 1985, due to the acquisition of the Milwaukee Road. Soo Line assumed debt obligations in connection with the purchase, issued notes due in 1995 and drew down on a seven-year line of credit. Soo Line also issued 1.9 million common shares for the equivalent of Canadian $69 million; CP Limited purchased a sufficient number of these shares to maintain its 55.75% interest. Although Canadian Pacific Air Lines issued new debt of $79 million for the acquisition of aircraft, this was offset by debt repayments. However, an additional $40 million of debt was assumed when the airline acquired a 52% interest in Nordair Inc.; subsequent to year end the ownership was raised to 65%. Algoma Steel's net debt increased $89 million, and an additional $55 million was provided by the limited partnership with CP Limited for

the project to complete and upgrade the seamless tube mills. AMCA's net debt rose $88 million, and its share capital increased $75 million through a public issue of three million preferred shares. After debt repayments, Marathon's debt increased $204 million, most of which was attributable to the Herring Group acquisition.

CP Rail financed its capital program, involving mainly replacement and upgrading of the road property, acquisition of equipment and capacity expansion, which includes work on the Rogers Pass project, through a mixture of its internally generated funds and debt arranged by the Company. Internal sources, supplemented by short term bank borrowings, provided PanCanadian with funds to progress its exploration and development programs, to acquire interests in a gas and condensate unit in the United States for $82 million, and to purchase all of the income tax losses and investment tax credits of CIP Inc. for $65 million.

Late in 1985 Cominco signed a memorandum of understanding to sell to the Federal Government preferred shares for $69 million to finance in part the modernization of its lead smelter at Trail, British Columbia. Early in 1986, agreement was reached to sell Cominco's 40% interest in Fording Coal Limited to CP Limited for $87 million, with the proceeds to be used to reduce Cominco's debt.

Debt to Total Capitalization
(%)



Commitments

The Company's unused commitments for long term financing at the end of 1985 amounted to $1,402 million, at interest rates varying with bank prime or money market rates, with commitment fees on $1,199 million, ranging from 1/8% to 1/4%. Unused lines of credit for short term financing, subject to periodic review, amounted to $1,340 million.

Total commitments for capital expenditures at year-end 1985 amounted to $434 million. The commitments are principally for the acquisition by CP Rail of equipment, the purchase by Canadian Pacific Air Lines of two new Boeing 737 aircraft to be delivered in 1986 and for Algoma's new coke oven battery, on which construction has been deferred, and the seamless tube mill project. Expenditures are to be met generally from internally generated funds or term loans.

Non-Consolidated Financial Condition

Total assets of the parent company were $6.9 billion at December 31, 1985, up $2.5 billion during the last three years. In this period, investment in subsidiary companies grew $1.8 billion, due primarily to the acquisition of the minority interest in Enterprises in 1985, and net investment in properties rose $901 million. Shareholders' equity increased $1.9 billion reflecting not only the issue of additional shares for the minority interest in Enterprises, but also growth in retained earnings over the period.

Equity per Ordinary share increased from $10.14 at year-end 1982 to $13.90 at December 31, 1985. The debt:equity proportion declined from 35:65 at the end of 1982 to 21:79 by year-end 1985, again because of the increase in equity arising from the merger. Interest coverage was 6.2 times in 1983, 6.0 times in 1984 and 4.5 times in 1985.

During 1985 the parent company generated cash from operations of $440 million and an additional $224 million from the issuance of long term debt, representing mainly the two debenture issues. Additions to properties and investments totalled $675 million, dividend payments were $103 million and long term debt repayments amounted to $77 million. In addition, the Company issued $1,469 million of Ordinary shares principally for the acquisition of the minority interest in Enterprises.

Summary of Significant Accounting Policies

Basic Financial Reporting and Consolidation Policy

Canadian Pacific Limited (CP Limited) directly and through subsidiaries carries on transportation, the development of extensive natural resource properties, manufacturing and other activities in Canada and internationally.

The financial statements of all subsidiary companies except those of two finance companies, which are accounted for on the equity basis, are included in the consolidated financial statements of CP Limited and have been prepared in accordance with accounting principles generally accepted in Canada. The major differences between Canadian and United States generally accepted accounting principles, insofar as they apply to the Corporation, are described under Supplementary Data. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars.

The statement of consolidated income on page 35 is designed to present clearly CP Limited's income from its various classes of business. The classes of business are based upon the major activities of significant subsidiaries and departments.

The principal companies and departments included in each class are as follows:

Percentage Ownership	December 31 1985	1984	1983
Rail Transportation			
CP Rail(1)			
Soo Line Corporation	55.75%	55.74%	55.69%
Non-Rail Transportation			
CP Air			
Canadian Pacific Air Lines, Limited	100	100	100
Eastern Provincial Airways Limited	100	100	—
Nordair Inc.	52	—	—
Canadian Pacific Hotels(1)			
CP Ships			
Canadian Pacific Steamships, Limited	100	100	100
Centennial Shipping Limited	100	100	100
Racine Terminal (Montreal) Limited	100	100	100
Canadian Pacific (Bermuda) Limited	100	100	100
CP Trucks			
Canadian Pacific Express & Transport Ltd.	100	100	100
CanPac International Freight Services Inc.	100	100	100
Oil and Gas			
PanCanadian Petroleum Limited(2)	87.08	60.83	61.06
Mines and Minerals			
Cominco Ltd.(2)	52.63	37.19	38.08
Fording Coal Limited			
CP Limited(2)	60	41.92	42.07
Cominco Ltd.	40	40	40
Processed Minerals Incorporated(2)	100	69.86	70.12
Steep Rock Resources Inc.(2)	79.61	55.62	55.82
Forest Products			
CIP Inc.(2)	100	69.86	70.12
Great Lakes Forest Products Limited(2)	54.28	37.92	38.06
Commandant Properties, Limited(2)	100	69.86	70.12
Steel and Industrial Products			
The Algoma Steel Corporation, Limited(2)	61.18	42.73	42.89
AMCA International Limited			
CP Limited(2)	16.15	11.28	11.37
The Algoma Steel Corporation, Limited	34.46	34.47	34.59
Real Estate			
Marathon Realty Company Limited(2)	100	69.86	70.12
Other Businesses			
Maple Leaf Mills Limited(2)	100	69.86	70.12
CP Telecommunications(1)			
Syracuse China Corporation(2)	100	69.86	70.12
Financial and Miscellaneous			
Canadian Pacific Securities Limited(2)	100	69.86	70.12
Chateau Insurance Company(2)	99.98	69.85	70.11
Canadian Pacific Enterprises Limited(2)	100	69.86	70.12
Corporate Activities			
Canadian Pacific Limited			
Corporate Activities			

(1) CP Rail and CP Telecommunications are departments of CP Limited, and Canadian Pacific Hotels is a department of Canadian Pacific Air Lines, Limited.

(2) Ownership percentages for 1984 and 1983 reflect CP Limited's indirect holdings in these entities through Canadian Pacific Enterprises Limited (Enterprises) of whose common shares CP Limited held 69.86% at December 31, 1984 and 70.12% at December 31, 1983. Ownership percentages for 1985 reflect the results of the merger, effective December 6, 1985, of Enterprises and CP Limited (see Note 3 to the financial statements).

The Algoma Steel Corporation, Limited supplies structural steel and plate to AMCA International Limited. In reporting the results of Steel and Industrial Products in the statement of consolidated income on page 35, the following amounts have been eliminated from revenues and expenses: 1985 – $36,550,000; 1984 – $41,965,000; 1983 – $31,010,000.

In order to present fairly the results for each class of business, charges between entities engaged in different business activities, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. Services provided by CP Rail to non-rail companies and departments yielded revenues in 1985 of $285,000,000 (1984 – $292,000,000; 1983 – $247,000,000). Inter-company interest charges amounted to $105,408,000 in 1985 (1984 – $121,672,000; 1983 – $108,703,000). There are no other significant charges between entities engaged in different business activities.

CP Limited's rent for leased railways is assigned to CP Rail. Other interest paid by CP Limited is allocated to CP Rail, CP Telecommunications and Corporate activities as appropriate. CP Limited's income taxes are allocated to CP Rail, CP Telecommunications and Corporate activities on the basis of their accounting incomes as adjusted for non-taxable items.

The significant accounting policies for the CP Limited companies and departments are described below, and should be read in conjunction with the consolidated financial statements and notes thereto.

Foreign Currency Translation

Foreign currency assets and liabilities of CP Limited's Canadian operations are translated into Canadian dollars at the year-end exchange rate, while foreign currency revenues and expenses are translated at the exchange rate in effect on the dates of the related transactions. With the exception of unrealized gains and losses on long term monetary assets and liabilities, which are being amortized to income over the remaining lives of the related items, foreign currency gains and losses are included in income immediately.

The accounts of CP Limited's foreign subsidiaries are translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average rates in effect for the year for revenues and expenses. Exchange gains or losses arising from translation are deferred and included under Shareholders' Equity as Foreign Currency Translation Adjustments. Also included as a foreign currency translation adjustment is the exchange credit arising from translation of the Corporation's Perpetual 4% Consolidated Debenture Stock.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Inventories

Rail materials and supplies, which consist primarily of fuel oil, repair or replacement materials for road and equipment property, are valued at average cost.

Products, work in progress and raw materials of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Supplies are valued at cost less appropriate allowances for obsolescence.

Finished products of Steel and Industrial Products and work in progress related to steel making operations are valued at the lower of cost and net realizable value. Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for Transportation Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following CP Rail expenditures which are charged to expenses: labour costs relating to track structure replacements; renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for railways subject to regulation by the Canadian Transport Commission.

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the Canadian Transport Commission and by the Interstate Commerce Commission for the Soo Line Railroad Company. When railway depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of transportation properties are as follows:

	Years
Railway	
– road diesel locomotives	20
– freight cars	30
– ties	28
– rails – in first position	21
– in other than first position	45
Aircraft	8 to 20
Ships	18 to 25
Trucks	7 to 12

During 1983 the estimated service lives and residual values of aircraft were revised to conform more closely with industry norms. As a result of this revision Canadian Pacific Air Lines' 1983 depreciation expense was reduced by $15,400,000.

Accounting for Oil and Gas Properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of conventional crude oil and natural gas reserves are capitalized on a world-wide cost centre basis. Such costs are depleted by the unit of production method based on estimated proven crude oil, natural gas and natural gas product reserves. In determining the depletion and depreciation provisions, the Corporation includes any excess of the net book value of conventional oil and natural gas assets over the unescalated net future operating revenues from its proven crude oil, natural gas and natural gas product reserves, and the cost of undeveloped properties.

Depreciation on plant and equipment is provided at rates which will amortize original costs over their estimated useful lives. The diminishing balance method is applied to all plant and equipment, except for the Empress and Syncrude facilities and the methanol plant, which are depreciated on the straight-line basis.

Interest on funds borrowed to finance major projects is capitalized during the construction period.

Accounting for Mining Properties

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a unit of production or on a time basis based on the mineral reserves position.

Interest related to the financing of major expenditures for fixed assets is capitalized during the construction period.

Accounting for Steel and Industrial Properties

Depreciation of manufacturing plant and equipment is provided on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment and mine development are either depreciated on a straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives or are amortized on a unit of production basis over the estimated recoverable raw material reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of construction and initial development.

Accounting for Real Estate Properties

All operating and carrying costs net of rental revenues are capitalized for all income properties under construction until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time.

Real estate is stated at cost, except for land held for sale which is stated at the lower of cost and net realizable value. Cost includes carrying costs, principally real estate taxes, interest, the applicable portion of salaries and expenses of development personnel and, for income properties, initial leasing costs.

The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Accounting for Other Properties

Depreciation and amortization of other properties are charged to earnings, either on a straight-line or on a unit of production basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Other Businesses is capitalized during the construction period.

Earnings per Ordinary Share

Earnings per Ordinary Share are calculated after providing for dividends on the Corporation's Preferred and Preference Shares using the weighted average number of Ordinary Shares outstanding during the year.

Auditors' Report

To the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheets of Canadian Pacific Limited as at December 31, 1985 and 1984 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for each of the three years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1985 in accordance with generally accepted accounting principles in Canada which, except for the changes in accounting for investment tax credits and foreign currency translation, with which we concur, described in Note 4 to the financial statements, have been consistently applied.

Price Waterhouse.

Chartered Accountants,
Montreal, Quebec,
March 7, 1986.

Statement of Consolidated Income

For the Year ended December 31		**1985**	1984	1983
		(in thousands, except per share amounts)		
Rail Transportation (Note 5)	Revenues	**$ 3,367,215**	$ 2,989,478	$ 2,803,805
	Expenses including income taxes	**3,249,358**	2,780,775	2,598,900
		117,857	208,703	204,905
	Minority interest	**(6,899)**	10,257	9,277
	Net income	**124,756**	198,446	195,628
Non-Rail Transportation (Note 6)	Revenues	**2,145,730**	1,947,738	1,472,966
	Expenses including income taxes	**2,154,657**	1,947,478	1,554,176
		(8,927)	260	(81,210)
	Minority interest	**16,331**	7,036	3,281
	Net income	**(25,258)**	(6,776)	(84,491)
Oil and Gas	Revenues	**1,137,105**	1,055,358	884,387
	Expenses including income taxes	**838,442**	755,329	643,296
		298,663	300,029	241,091
	Minority interests	**110,084**	117,234	93,785
	Net income	**188,579**	182,795	147,306
Mines and Minerals	Revenues	**1,811,225**	1,949,845	1,653,226
	Expenses including income taxes	**1,928,160**	1,905,603	1,689,231
		(116,935)	44,242	(36,005)
	Minority interests	**(79,634)**	29,614	(19,708)
	Net income	**(37,301)**	14,628	(16,297)
Forest Products	Revenues	**2,161,925**	2,199,331	1,832,177
	Expenses including income taxes	**2,180,137**	2,201,398	1,947,735
		(18,212)	(2,067)	(115,558)
	Minority interests	**(1,396)**	4,831	(46,227)
	Net income	**(16,816)**	(6,898)	(69,331)
Steel and Industrial Products	Revenues	**3,288,739**	3,017,627	2,454,605
	Expenses including income taxes	**3,267,518**	3,063,530	2,619,839
		21,221	(45,903)	(165,234)
	Minority interests	**22,640**	(18,586)	(99,682)
	Net income	**(1,419)**	(27,317)	(65,552)
Real Estate	Revenues	**279,553**	277,570	274,083
	Expenses including income taxes	**250,801**	249,794	247,872
		28,752	27,776	26,211
	Minority interests	**8,624**	8,659	8,066
	Net income	**20,128**	19,117	18,145
Other Businesses	Revenues	**1,143,302**	1,475,686	1,668,090
	Expenses including income taxes	**1,115,204**	1,429,235	1,625,496
		28,098	46,451	42,594
	Minority interests	**7,328**	13,418	12,580
	Net income	**20,770**	33,033	30,014
Financial and Miscellaneous	Revenues	**208,190**	231,905	191,027
	Expenses including income taxes	**232,167**	255,404	200,201
		(23,977)	(23,499)	(9,174)
	Minority interest	**2,742**	6,626	2,656
	Net income	**(26,719)**	(30,125)	(11,830)
Net Income		**$ 246,720**	$ 376,903	$ 143,592
Earnings per Ordinary Share		**$ 1.11**	$ 1.75	$ 0.66

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	1985	1984	1983
		(in thousands)	
Balance, January 1	**$ 3,602,974**	$ 3,327,138	$ 3,284,369
Net income	**246,720**	376,903	143,592
Gain arising from the increase in shareholders' equity of a subsidiary due to the issuance of common shares	**1,744**	613	996
	3,851,438	3,704,654	3,428,957
Dividends			
7¼% Preferred shares	**181**	834	967
4% Preference shares	**527**	519	525
Ordinary shares (per share: 1985 – 47.67¢; 1984 – 46.67¢; 1983 – 46.67¢)	**112,087**	100,327	100,327
Total dividends	**112,795**	101,680	101,819
Balance, December 31	**$ 3,738,643**	$ 3,602,974	$ 3,327,138

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Year ended December 31	**1985**	1984	1983
Operating Activities		(in thousands)	
Net income	**$ 246,720**	$ 376,903	$ 143,592
Depreciation, depletion and amortization	**996,977**	875,117	757,008
Deferred income taxes	**15,611**	91,010	(115,501)
Minority shareholders' interest in income of subsidiaries	**79,820**	179,089	(35,972)
Other operating cash items, net	**3,174**	4,805	81,589
Cash from operations, before changes in working capital	**1,342,302**	1,526,924	830,716
(Increase) decrease in non-cash working capital balances relating to operations (Note 7)	**8,551**	(351,240)	350,610
Cash from operations	**1,350,853**	1,175,684	1,181,326
Dividends			
Paid to shareholders of the corporation	**(102,717)**	(101,857)	(101,629)
Paid to minority shareholders of subsidiaries	**(133,384)**	(143,477)	(133,093)
	(236,101)	(245,334)	(234,722)
Financing Activities			
Issuance of long term debt	**1,270,108**	603,926	701,994
Repayment of long term debt	**(789,152)**	(852,116)	(692,453)
Issuance of shares by subsidiaries	**129,046**	228,697	229,141
Redemption of Preferred shares by a subsidiary	**(102,810)**	—	—
Preferred shares purchased for cancellation	**(10,769)**	(1,926)	(1,479)
Issuance of Ordinary shares by the corporation	**1,469,500**	—	—
	1,965,923	(21,419)	237,203
Investing Activities			
Acquisition of minority common shareholders' interest in Enterprises	**(1,407,739)**	—	—
Acquisition of railway operations and related net assets by a subsidiary	**(248,515)**	—	—
Net assets of partnership interest acquired	**(48,773)**	—	—
Net assets of subsidiary acquired	**(7,423)**	(23,039)	—
Net cash proceeds from sale of subsidiaries	**74,252**	—	—
Additions to investments	**(38,536)**	(85,432)	(37,017)
Reduction of investments	**14,207**	67,805	72,906
Additions to properties	**(1,896,334)**	(1,343,097)	(1,173,146)
Proceeds from disposal of properties	**155,765**	172,752	101,686
	(3,403,096)	(1,211,011)	(1,035,571)
Cash Position*			
Increase (decrease) in cash	**(322,421)**	(302,080)	148,236
Cash at beginning of year	**(322,342)**	(20,262)	(168,498)
Cash at end of year	**$ (644,763)**	$ (322,342)	$ (20,262)

*Cash comprises cash and temporary investments net of bank loans and notes and accrued interest payable.

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet
December 31

Assets	1985	1984
	(in thousands)	
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 327,086**	$ 483,687
Accounts receivable	**2,463,788**	2,073,843
Inventories (Note 10)	**2,047,834**	1,989,093
	4,838,708	4,546,623
Insurance Fund (approximate market $4,330,000; 1984 – $4,215,000)	**4,000**	4,000
Investments (Note 11)	**442,369**	407,209
Properties, at cost (Note 12)		
Rail Transportation	**6,663,474**	5,383,466
Non-Rail Transportation	**2,912,879**	2,636,965
Oil and Gas	**3,244,605**	2,546,105
Mines and Minerals	**2,679,108**	2,601,691
Forest Products	**2,560,512**	2,479,939
Steel and Industrial Products	**2,239,117**	2,127,529
Real Estate	**1,670,111**	1,301,148
Other Businesses	**643,802**	696,091
Financial and Miscellaneous	**38,457**	38,371
	22,652,065	19,811,305
Less: Accumulated depreciation, depletion and amortization	**7,214,323**	6,564,149
	15,437,742	13,247,156
Other Assets and Deferred Charges	**723,107**	591,134
	$ 21,445,926	$ 18,796,122

Liabilities	**1985**	1984
	(in thousands)	
Current Liabilities		
Bank loans	**$ 386,452**	$ 414,750
Accounts payable and accrued liabilities	**2,810,360**	2,353,160
Notes and accrued interest payable	**585,397**	391,279
Income and other taxes payable	**85,471**	85,434
Dividends payable	**42,239**	41,486
Long term debt maturing within one year (Note 13)	**468,140**	291,270
	4,378,059	3,577,379
Deferred Liabilities	**246,480**	176,928
Insurance Reserve	**4,000**	4,000
Long Term Debt (Note 13)	**6,215,355**	5,317,722
Perpetual 4% Consolidated Debenture Stock (Note 14)	**184,981**	157,805
Deferred Income Taxes	**1,899,731**	1,775,625
Deferred Income Credits (Note 15)	**309,030**	266,559
Minority Shareholders' Interest in Subsidiary Companies (Note 16)	**2,046,607**	2,997,161
Shareholders' Equity (Note 17)		
Preferred Shares		
Authorized – 20,381,788 shares without nominal or par value		
Issued – Nil (1984 – 1,077,122) 7¼% Cumulative Redeemable Series A Shares	**—**	10,771
Preference Shares – 4% non-cumulative		
Authorized – an amount not exceeding one-half the aggregate amount of Ordinary Shares outstanding		
Issued – 2,561,769 Sterling Preference Shares	**4,156**	4,156
– 10,713,816 Canadian Dollar Preference Shares	**10,714**	10,714
	14,870	14,870
Ordinary Shares		
Authorized – an unlimited number of shares without nominal or par value		
Issued – 297,705,933 (1984 – 214,986,840) shares	**760,552**	358,311
Premium on securities	**1,182,569**	115,308
Other paid-in surplus	**162,272**	161,390
Foreign currency translation adjustments	**302,777**	259,319
Retained income	**3,738,643**	3,602,974
	6,161,683	4,522,943
	$ 21,445,926	$ 18,796,122

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Approved on behalf of the Board:

F. S. Burbidge
Director

W. W. Atkinson
Director

Notes to Consolidated Financial Statements

1. Net Income

	1985	1984	1983
		(in thousands)	
Rail Transportation			
CP Rail	**$ 133,449**	$ 185,544	$ 183,969
Soo Line Corporation	**(8,693)**	12,902	11,659
	124,756	198,446	195,628
Non-Rail Transportation			
CP Air	**(8,910)**	13,760	(16,408)
CP Ships	**(19,130)**	(23,606)	(73,979)
CP Trucks	**2,782**	3,070	5,896
	(25,258)	(6,776)	(84,491)
Oil and Gas			
PanCanadian Petroleum Limited	**188,579**	182,795	147,306
Mines and Minerals			
Cominco Ltd.	**(49,352)**	3,939	(21,054)
Fording Coal Limited	**7,370**	6,430	1,871
Processed Minerals Incorporated	**3,400**	3,022	1,583
Steep Rock Resources Inc.	**319**	214	593
Others	**962**	1,023	710
	(37,301)	14,628	(16,297)
Forest Products			
CIP Inc.	**(16,635)**	(13,820)	(65,574)
Great Lakes Forest Products Limited	**(180)**	6,803	(3,784)
Others	**(1)**	119	27
	(16,816)	(6,898)	(69,331)
Steel and Industrial Products			
The Algoma Steel Corporation, Limited	**(7,582)**	(26,398)	(59,069)
AMCA International Limited	**6,163**	(919)	(6,483)
	(1,419)	(27,317)	(65,552)
Real Estate			
Marathon Realty Company Limited	**20,128**	19,117	18,145
Other Businesses			
Maple Leaf Mills Limited	**7,112**	10,843	10,488
Baker Commodities, Inc.	**—**	10,434	2,311
CP Hotels	**—**	—	6,072
CP Telecommunications	**9,015**	8,074	6,419
Syracuse China Corporation	**4,436**	3,388	3,068
Others	**207**	294	1,656
	20,770	33,033	30,014
Financial and Miscellaneous			
Canadian Pacific Securities Limited	**1,119**	1,232	1,409
Chateau Insurance Company	**(287)**	(339)	274
Corporate Activities	**(28,865)**	(21,200)	(13,913)
Others	**1,314**	(9,818)	400
	(26,719)	(30,125)	(11,830)
Net Income	**$ 246,720**	$ 376,903	$ 143,592

2. Expenses Including Income Taxes

	1985	1984	1983
		(in thousands)	
Rail Transportation			
Maintenance	**$ 932,426**	$ 842,066	$ 806,860
Transportation	**1,365,693**	1,054,453	958,966
General and administrative	**515,453**	504,565	455,641
Depreciation and amortization	**182,554**	143,135	134,686
Fixed charges	**120,659**	60,408	53,603
Income taxes	**132,573**	176,148	189,144
	$ 3,249,358	$ 2,780,775	$ 2,598,900
Non-Rail Transportation			
Maintenance	**$ 147,074**	$ 134,108	$ 109,647
Operating expenses and cost of goods sold	**1,255,169**	1,149,556	924,467
Selling, general and administrative	**503,757**	425,346	356,711
Depreciation and amortization	**163,501**	138,508	113,979
Interest	**80,664**	78,525	60,748
Income taxes	**4,492**	21,435	(11,376)
	$ 2,154,657	$ 1,947,478	$ 1,554,176
Oil and Gas			
Cost of goods sold	**$ 261,490**	$ 217,407	$ 192,533
Selling, general and administrative	**36,128**	34,235	32,154
Depreciation, depletion and amortization	**158,100**	135,545	113,702
Interest	**25,665**	21,694	26,858
Income and revenue taxes	**357,059**	346,448	278,049
	$ 838,442	$ 755,329	$ 643,296
Mines and Minerals			
Cost of goods sold	**$ 1,265,673**	$ 1,300,454	$ 1,180,719
Distribution, selling, general and administrative	**385,235**	356,484	315,799
Write-down of assets	**84,392**	—	—
Depreciation, depletion and amortization	**143,559**	137,732	118,542
Interest	**94,700**	101,176	94,405
Income taxes	**(45,399)**	9,757	(20,234)
	$ 1,928,160	$ 1,905,603	$ 1,689,231
Forest Products			
Cost of goods sold	**$ 1,827,491**	$ 1,844,523	$ 1,651,550
Selling, general and administrative	**80,857**	84,428	88,238
Depreciation, depletion and amortization	**144,913**	126,250	109,922
Interest	**141,594**	159,583	153,803
Income taxes	**(14,718)**	(13,386)	(55,778)
	$ 2,180,137	$ 2,201,398	$ 1,947,735
Steel and Industrial Products			
Cost of goods sold	**$ 2,684,544**	$ 2,516,181	$ 2,155,230
Selling, general and administrative	**366,756**	341,679	376,032
Depreciation, depletion and amortization	**119,698**	112,903	98,704
Interest	**120,083**	139,077	132,808
Income taxes	**(23,563)**	(46,310)	(142,935)
	$ 3,267,518	$ 3,063,530	$ 2,619,839

2. Expenses Including Income Taxes (cont'd)	**1985**	1984	1983
		(in thousands)	
Real Estate			
Operating expenses and cost of sales	**$ 134,088**	$ 145,029	$ 145,382
Depreciation	**18,528**	15,606	14,183
Interest	**79,922**	70,272	68,966
Income taxes	**18,263**	18,887	19,341
	$ 250,801	$ 249,794	$ 247,872
Other Businesses			
Operating expenses and cost of goods sold	**$ 799,164**	$ 1,115,210	$ 1,263,116
Selling, general and administrative	**226,268**	227,084	245,399
Depreciation and amortization	**42,917**	44,893	51,721
Interest	**19,259**	25,173	32,443
Income taxes	**27,596**	16,875	32,817
	$ 1,115,204	$ 1,429,235	$ 1,625,496
Financial and Miscellaneous			
Operating, general and administrative	**$ 82,642**	$ 81,071	$ 71,056
Depreciation and amortization	**23,207**	20,545	1,569
Interest	**161,529**	165,685	154,750
Income taxes	**(35,211)**	(11,897)	(27,174)
	$ 232,167	$ 255,404	$ 200,201

3. Merger with Canadian Pacific Enterprises Limited

Effective December 6, 1985 the Corporation and Enterprises were merged. Under the merger, in which Enterprises became a wholly-owned subsidiary of the Corporation, the holders of Common Shares of Enterprises were issued 1.675 Ordinary Shares of the Corporation for each Common Share of Enterprises. This resulted in the issue of 78,942,444 additional Ordinary Shares of the Corporation with a value of $1,401,228,000 (see Note 17). Prior to the merger the Corporation owned approximately 70% of the Common Shares of Enterprises.

The merger has been accounted for as a purchase, and the Corporation's 1985 consolidated net income includes its additional interest in the results of Enterprises from the date of the merger. The excess of the acquisition cost over the book value of the Enterprises shares acquired (approximately $401,000,000) has been allocated to Oil and Gas and Real Estate assets and is being amortized to income on the same basis as the related assets are being depreciated and depleted.

Had the merger been effected on January 1, 1984 consolidated net income on a pro forma basis would have been approximately $451,000,000 for 1984 and $301,000,000 for 1985 while consolidated earnings per Ordinary Share would have been $1.53 and $1.02 for 1984 and 1985 respectively.

As a result of the merger the presentation of the Corporation's consolidated financial statements, notes thereto and supplementary data (including prior years' figures where applicable) has been changed so as to recognize the increased significance of the Corporation's non-transportation businesses.

4. Change in Accounting Policies

Effective January 1, 1985, the Corporation and its subsidiaries adopted on a prospective basis the new recommendations of the Canadian Institute of Chartered Accountants (CICA) on accounting for investment tax credits. Whereas previously investment tax credits were accounted for principally as a reduction of income tax expense, the new recommendations call for them to be amortized to income on the same basis as the assets to which they relate. The adoption of the new recommendations had the effect of reducing consolidated net income by approximately $28,000,000 or 13¢ per Ordinary Share.

Effective January 1, 1984, the Corporation and its subsidiaries adopted on a prospective basis the recommendations of the CICA on foreign currency translation. This change had the effect of reducing consolidated net income for 1985 by approximately $48,000,000 or 22¢ per Ordinary Share (1984 – $30,000,000 or 14¢ per Ordinary Share).

5. Rail Transportation Results

CP Rail Results: On January 1, 1984, the Western Grain Transportation Act became effective. The Act brought to an end the previous statutory grain freight rates and the Government's ongoing payments towards the cost of operating uneconomic western branch lines. The Act also brought to an end the interim grain payments made in 1983 by the Government to Canadian railways pending the passage of the new legislation.

Western branch line and interim grain payments, which were included in CP Rail's results for 1983, amounted to approximately $185,000,000 after tax of which approximately $53,000,000 pertained to years prior to 1983.

Payments to CP Rail under the Act comprise amounts from the Government (replacing the previous western branch line and interim grain payments) as well as increased rates paid by shippers. In 1985, the Government payments together with the change in shipper rates amounted to approximately $126,000,000 (1984 – $167,000,000) after tax.

Soo Line Corporation: On February 19, 1985 Soo Line Corporation acquired the transportation operations and related assets of the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. The transaction was accounted for as a purchase and consolidated from the date of acquisition. A summary of the assets acquired and the consideration given is as follows:

		U.S. dollars in thousands
Assets (including cash of U.S. $18,687,000)	$	658,814
Liabilities		462,615
	$	196,199
Consideration given		
Cash	$	196,199

The cash consideration was financed by U.S. $125,000,000 under a U.S. $150,000,000 line-of-credit, of which U.S. $68,000,000 is outstanding, and the remainder from internal funds.

Assuming the transaction had taken place on January 1, 1984, CP Limited's share of the pro forma consolidated net loss of Soo Line Corporation would have been Cdn. $4,690,000 for 1984 and Cdn. $13,350,000 for 1985 and CP Limited's earnings per Ordinary Share would have been Cdn. $1.67 and Cdn. $1.09 for 1984 and 1985 respectively.

6. Non-Rail Transportation Results

CP Air Results: Included in CP Air's results are the results of CP Hotels (net income for 1985 – $17,714,000; 1984 – $10,858,000) and the results from September 1, 1984 of Eastern Provincial Airways Limited (net loss for 1985 – $8,326,000; 1984 – $2,708,000). CP Hotels was acquired from Enterprises on December 1, 1983, and CP Limited's share of its results to November 30, 1983, (net income of $6,072,000) is included under Other Businesses and for December, 1983 (net loss of $1,421,000) under CP Air. Eastern Provincial Airways Limited was acquired on August 31, 1984 for approximately $20,000,000 and was accounted for as a purchase and consolidated from the date of acquisition.

During November and December 1985 Canadian Pacific Air Lines, Limited acquired 52% of the Common Shares of Nordair Inc. for a purchase price of approximately $20,700,000. The acquisition, which is subject to approval by the Canadian Transport Commission, was accounted for as a purchase and consolidated from the date of acquisition.

7. Changes in Non-Cash Working Capital Balances Relating to Operations

		1985		1984		1983
				(in thousands)		
Accounts receivable	**$**	**389,945**	$	388,671	$	109,654
Inventories		**58,741**		27,929		(186,628)
Accounts payable and accrued liabilities		**(457,200)**		(238,502)		(162,987)
Income and other taxes payable		**(37)**		173,142		(110,649)
Increase (decrease) for the year	**$**	**(8,551)**	$	351,240	$	(350,610)

8. Interest Expense

	1985	1984	1983
		(in thousands)	
Long term debt and debenture stock	**$ 678,771**	$ 647,377	$ 620,154
Short term debt	**102,131**	90,240	85,833
	780,902	737,617	705,987
Less: Interest capitalized on funds borrowed to finance capital projects	**43,992**	39,456	38,211
	$ 736,910	$ 698,161	$ 667,776

9. Income and Revenue Taxes

	1985	1984	1983
		(in thousands)	
Current	**$ 405,481**	$ 426,947	$ 377,355
Deferred	**15,611**	91,010	(115,501)
	$ 421,092	$ 517,957	$ 261,854
The deferred income tax provision arose as follows:			
Capital cost allowances	**$ (16,202)**	$ 62,044	$ (8,542)
Exploration and development allowances	**34,594**	44,599	17,251
Loss carry forwards recognized	**(7,824)**	(7,616)	(130,397)
Other	**5,043**	(8,017)	6,187
	$ 15,611	$ 91,010	$ (115,501)
Income tax at the statutory tax rate may be reconciled to the effective tax as follows:			
Income tax at the statutory rate	**$ 384,682**	$ 518,870	$ 187,054
Depletion and resource allowances	**(97,721)**	(103,836)	(82,269)
Foreign tax differentials	**(8,527)**	(9,405)	7,437
Deferred tax differentials	**16,345**	7,300	11,998
Royalties and mineral reserve tax	**37,814**	30,414	27,986
Manufacturing and processing credits	**1,797**	2,044	16,033
Loss carry forwards not recognized	**—**	24,190	24,935
Investment tax credits	**—**	(44,814)	(20,628)
Other	**(9,625)**	(3,086)	13,743
Income taxes	**324,765**	421,677	186,289
Petroleum and gas revenue taxes	**96,327**	96,280	75,565
Income and revenue taxes as charged to income	**$ 421,092**	$ 517,957	$ 261,854

10. Inventories

	1985	1984
	(in thousands)	
Rail materials and supplies	**$ 288,169**	$ 236,367
Raw materials	**581,452**	603,442
Work in progress	**271,373**	266,041
Finished goods	**603,129**	589,002
Stores and materials	**303,711**	294,241
	$ 2,047,834	$ 1,989,093

11. Investments

	1985	1984
	(in thousands)	
Accounted for on the equity basis:		
AMCA International Finance Corporation	**$ 77,770**	$ 74,738
AMCA International Finance Limited	**13,022**	10,076
Aberfoyle Limited	**22,959**	26,886
Tilden Iron Ore Partnership	**49,858**	47,664
Other	**97,851**	63,800
Accounted for on the cost basis:		
Panarctic Oils Ltd.	**42,097**	41,725
The Toronto Terminals Railway Company	**10,682**	10,682
Portfolio investments (approximate market value 1985 – $7,290,000; 1984 – $13,270,000)	**7,789**	16,816
Other	**120,341**	114,822
	$ 442,369	$ 407,209

12. Properties and Accumulated Depreciation, Depletion and Amortization

	1985			1984
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Rail Transportation	$ 6,663,474	$ 2,272,795	**$ 4,390,679**	$ 3,245,413
Non-Rail Transportation	2,912,879	925,419	**1,987,460**	1,789,159
Oil and Gas	3,244,605	910,714	**2,333,891**	1,790,793
Mines and Minerals	2,679,108	1,041,705	**1,637,403**	1,659,060
Forest Products	2,560,512	770,707	**1,789,805**	1,835,699
Steel and Industrial Products	2,239,117	883,006	**1,356,111**	1,301,087
Real Estate	1,670,111	95,946	**1,574,165**	1,218,275
Other Businesses	643,802	301,603	**342,199**	380,782
Financial and Miscellaneous	38,457	12,428	**26,029**	26,888
	$ 22,652,065	$ 7,214,323	**$ 15,437,742**	$ 13,247,156

13. Long Term Debt

	1985	1984
	(in thousands)	
Canadian Pacific Limited		
8⅛% Collateral Trust Bonds due 1985	**$ —**	$ 33,000
8½% Collateral Trust Bonds due 1989	**4,547**	4,597
9¾% Collateral Trust Bonds due 1989	**59,486**	56,087
8⅞% Collateral Trust Bonds due 1992	**36,403**	37,948
14⅝% Collateral Trust Bonds due 1992	**105,000**	99,000
10.35% Collateral Trust Bonds due 1994	**60,850**	63,188
11¼% Collateral Trust Bonds due 1995	**47,215**	49,718
8½% – 14⅜% Equipment Trust Certificates due 1986-1993	**233,710**	230,205
10⅜% – 12½% Debentures due 1990-1999	**320,000**	99,000
Obligations under capital leases due 1986-1990	**20,245**	13,940
Bank loans and sundry borrowings due 1986-1989	**26,787**	42,999
Soo Line Corporation		
7⅛% – 13⅝% Equipment Trust Certificates due 1986-1996	**85,221**	93,216
Notes due 1995-2005	**239,095**	—
Obligations under capital leases due 1986-1999	**85,274**	—
Bank loans and sundry borrowings due 1986-2029	**132,060**	26,897
Canadian Pacific Air Lines, Limited		
Bank loans and sundry borrowings due 1986-1997	**350,485**	369,275
8⅝% – 11⅜% First Mortgage Sinking Fund Bonds due 1986-1995	**38,312**	38,758
Instalment purchase contract due 1986-1996	**186,156**	155,775
Obligations under capital leases due 1986-1993	**124,572**	63,101
Canadian Pacific Steamships, Limited		
Obligations under capital leases due 1986	**327**	14,663
Centennial Shipping Limited		
Bank loans due 1986-1988	**35,176**	21,560
Obligations under capital leases due 1986-1988	**17,491**	—
Canadian Pacific (Bermuda) Limited		
Mortgages due 1986-1988	**21,105**	31,821
Bank loans due 1986-1990	**42,420**	49,344
Canadian Pacific Express & Transport Ltd.		
Bank loans due 1986-1989	**38,513**	31,294
Sundry – due 1986-1988	**399**	463
PanCanadian Petroleum Limited		
8⅛% – 16½% Debentures due 1986-1993	**153,875**	155,250
Cominco Ltd.		
Bank loans due 1986-1994	**389,553**	388,808
8½% – 10⅞% Sinking Fund Debentures due 1991-1995	**87,009**	91,711
Notes due 1986-1996	**92,244**	88,305
Subsidiaries of Cominco Ltd.	**113,211**	90,632
CIP Inc.		
Bank loans due 1986-1996	**392,870**	362,347
Sundry – due 1986-1997	**73,295**	76,159
Great Lakes Forest Products Limited		
Bank loans due 1987-1990	**177,570**	160,350
8% – 11¼% Sinking Fund Bonds due 1989-1995	**33,120**	37,832
Sundry – due 1986-1989	**6,602**	9,831

13. Long Term Debt (cont'd)

	1985	1984
	(in thousands)	
The Algoma Steel Corporation, Limited		
Bank loans due 1986-1993	**$ 14,682**	$ 111,466
7⅜% – 17⅜% Sinking Fund Debentures due 1986-1997	**305,462**	172,000
Floating Rate Debenture due 1990	**181,779**	132,170
Floating Rate Income Debentures due 1994-1999	**115,932**	112,868
9.65% Note due 1986-2000	**41,949**	42,295
AMCA International Limited		
Bank loans due 1986-1998	**216,753**	270,591
7⅜% – 12¼% Debentures due 1986-1999	**330,477**	220,223
Other notes payable due 1986-2004	**92,663**	60,925
Marathon Realty Company Limited		
Bank loans due 1986-1990	**221,562**	127,613
9½% – 17½% Sinking Fund Bonds due 1986-2003	**162,562**	164,907
Mortgages due 1986-2018	**447,502**	363,297
Sundry – due 1986-1991	**108,273**	80,452
Maple Leaf Mills Limited		
Bank loans due 1987-1991	**5,071**	11,150
8½% – 11⅝% Sinking Fund Debentures due 1986-1998	**42,710**	43,899
Sundry – due 1986-1988	**3,247**	5,786
Canadian Pacific Securities Limited		
8¼% – 9½% Debentures due 1990-1993	**54,518**	57,083
11⅞% – 17¾% Notes due 1986-1990	**316,821**	308,779
6⅜% – 7½% Guaranteed Notes due 1988	**167,873**	162,127
Other companies	**23,461**	74,287
	6,683,495	5,608,992
Less: Long term debt maturing within one year	**468,140**	291,270
	$ 6,215,355	$ 5,317,722

Collateral Trust Bonds of CP Limited are secured by a pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount $786,032,500 at December 31, 1985 (1984 – $834,278,600).

Of the aggregate bank loans of $2,182,792,000 included above, approximately $1,698,251,000 bear interest at rates which fluctuate with bank prime or money market rates.

Annual maturities and sinking fund requirements for each of the five years following 1985 are:
1986 – $468,140,000; 1987 – $678,844,000;
1988 – $829,188,000; 1989 – $685,319,000;
1990 – $834,693,000.

14. Perpetual 4% Consolidated Debenture Stock

Currency of Issue	1985 Sterling	1985 United States Dollar	1985 Canadian Dollar	1985 Total	1984 Total
	(in thousands)				
Issued	£ 46,757	$ 483,640	$ 199,936	**$ 971,013**	$ 992,084
Less: Pledged as collateral	—	418,640	199,936	**786,032**	834,279
	£ 46,757	$ 65,000	$ —	**$ 184,981**	$ 157,805

15. Deferred Income Credits

Deferred Income Credits include approximately $138,700,000 (1984 – $120,100,000) from the Federal Government for the rehabilitation of certain western branch lines, approximately $48,200,000 (1984 – $43,500,000) from other bodies, mainly for relocation of railway lines and approximately $32,000,000 (1984 – nil) in investment tax credits. These amounts are being amortized to income on the same basis as the related fixed assets are being depreciated.

Deferred Income Credits also include approximately $83,000,000 (1984 – $97,000,000) covering payments received by PanCanadian Petroleum Limited for natural gas to be delivered at future dates. These payments are taken into income when the natural gas is delivered.

16. Minority Shareholders' Interest in Subsidiary Companies

	1985	1984
	(in thousands)	
Soo Line Corporation	**$ 191,549**	$ 163,752
Canadian Pacific Air Lines, Limited		
Floating rate preference shares, series A	**50,000**	50,000
Common share equity	**10,900**	—
Centennial Shipping Limited	**13,777**	3,611
Canadian Pacific Enterprises Limited	**—**	1,048,730
PanCanadian Petroleum Limited	**180,641**	158,035
Cominco Ltd.		
$2.00 Tax deferred exchangeable preferred shares, series A	**41,790**	42,146
Floating rate preferred shares, series C	**50,000**	50,000
$3.25 Cumulative redeemable preferred shares, series D	**50,000**	50,000
Common share equity	**312,608**	377,119
Steep Rock Resources Inc.	**2,732**	2,610
CIP Inc.	**36,985**	38,519
Great Lakes Forest Products Limited	**146,305**	150,226
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	**43,483**	44,608
Floating rate preference shares	**80,000**	80,000
$2.00 Cumulative redeemable convertible class B preference shares	**95,000**	95,000
Common share equity	**229,043**	236,801
AMCA International Limited		
8.84% Cumulative redeemable retractable preferred shares	**73,875**	75,000
9.5% Cumulative redeemable convertible preferred shares	**100,000**	100,000
9.25% Cumulative redeemable retractable preferred shares	**75,000**	—
Common share equity	**244,161**	217,350
Other	**18,758**	13,654
	$ 2,046,607	$ 2,997,161

17. Shareholders' Equity

On March 28, 1985, all of the Corporation's outstanding 7¼% Cumulative Redeemable Preferred Shares, Series A, were called for redemption. An analysis of Preferred Share balances is as follows:

	1985		1984		1983	
	Number	Amount	Number	Amount	Number	Amount
	(in thousands)					
Balance, January 1	**1,077**	**$ 10,771**	1,271	$ 12,709	1,423	$ 14,231
Purchased	**1,077**	**10,771**	194	1,938	152	1,522
Balance, December 31	**—**	**$ —**	1,077	$ 10,771	1,271	$ 12,709
Total cost of shares purchased		**$ 10,769**		$ 1,926		$ 1,479

At the Corporation's Annual Meeting of Shareholders held on May 1, 1985 the Shareholders approved an increase in the authorized number of Ordinary Shares from 100,000,000 to an unlimited number and approved, effective May 17, 1985, a three-for-one share split of the Ordinary and Preference Shares of the Corporation. All per share earnings and dividends and all references to the Corporation's Ordinary and Preference Shares have been retroactively restated to reflect the increased number of Ordinary and Preference Shares outstanding.

During 1985 the Corporation issued 82,719,093 Ordinary Shares, 78,942,444 in exchange for Common Shares of Enterprises (see Note 3) and 3,776,649 for cash under the Corporation's dividend reinvestment and share purchase plan. The Ordinary Shares issued in exchange for Common Shares of Enterprises were valued at $1,401,228,000, of which $333,969,000 has been allocated to the Corporation's Ordinary Share capital account and $1,067,259,000 to Premium on Securities.

At December 31, 1985, Maple Leaf Mills (Eastern) Limited (a wholly-owned indirect subsidiary of the Corporation) held 33,000 Sterling and 825,375 Canadian Dollar Preference Shares in the Corporation at a total cost of $452,000.

An analysis of the changes during 1985 and 1984 in the Foreign Currency Translation Adjustments account is as follows:

	1985	1984
	(in thousands)	
Balance, January 1	**$ 259,319**	$ 209,112
Effect of exchange rate changes	**43,641**	53,255
Reduction in investment in subsidiaries	**(183)**	(3,048)
Balance, December 31	**$ 302,777**	$ 259,319

18. Industry Segments

	1985	1984	1983
		(in thousands)	
Identifiable assets			
Rail Transportation	**$ 5,342,385**	$ 4,027,116	$ 3,509,639
Non-Rail Transportation	**2,467,111**	2,283,092	1,999,915
Oil and Gas	**2,700,862**	2,113,793	1,907,200
Mines and Minerals	**2,390,711**	2,395,692	2,366,263
Forest Products	**2,532,400**	2,565,442	2,468,621
Steel and Industrial Products	**3,512,885**	3,204,781	3,041,463
Real Estate	**1,652,855**	1,275,264	1,217,822
Other Businesses	**593,770**	667,725	683,279
Financial and Miscellaneous	**1,144,080**	1,261,982	1,452,467
Eliminations	**(891,133)**	(998,765)	(1,044,720)
	$ 21,445,926	$ 18,796,122	$ 17,601,949
Capital expenditures			
Rail Transportation	**$ 609,266**	$ 467,880	$ 391,049
Non-Rail Transportation	**230,365**	131,532	118,521
Oil and Gas	**430,993**	283,878	222,495
Mines and Minerals	**170,208**	155,531	126,646
Forest Products	**120,843**	91,736	95,873
Steel and Industrial Products	**202,268**	60,909	62,564
Real Estate	**76,727**	105,889	93,377
Other Businesses	**54,462**	44,455	61,433
Financial and Miscellaneous	**1,202**	1,287	1,188
	$ 1,896,334	$ 1,343,097	$ 1,173,146

19. Geographic Segments

	1985	1984	1983
		(in thousands)	
Canada			
Revenues			
Domestic	**$ 7,915,444**	$ 7,632,213	$ 7,090,206
Export – U.S.	**1,710,600**	1,807,627	1,389,151
– Other	**970,953**	1,106,716	881,787
International transportation revenues	**1,048,804**	1,019,989	927,504
Inter-area transfers	**249,489**	258,698	162,503
	11,895,290	11,825,243	10,451,151
Inter-company revenues	**(502,698)**	(509,443)	(478,179)
Total revenues	**11,392,592**	11,315,800	9,972,972
Net income before income taxes and minority interest	**763,758**	988,319	461,011
Net income	**$ 250,974**	$ 362,928	$ 199,641
Identifiable assets	**$ 16,754,241**	$ 15,531,571	$ 14,727,225
United States			
Revenues	**$ 3,146,485**	$ 2,869,899	$ 2,330,482
Inter-area transfers	**250,554**	222,481	154,747
Total revenues	**3,397,039**	3,092,380	2,485,229
Net income before income taxes and minority interest	**(49,730)**	26,181	(90,489)
Net income	**$ (2,124)**	$ 28,861	$ 310
Identifiable assets	**$ 4,374,671**	$ 3,069,645	$ 2,703,974
Other Countries			
Revenues	**$ 397,816**	$ 367,930	$ 383,707
Inter-area transfers	**77,834**	54,391	26,413
Total revenues	**475,650**	422,321	410,120
Net income before income taxes and minority interest	**33,057**	72,842	75,864
Net income	**$ 17,000**	$ 8,720	$ 17,620
Identifiable assets	**$ 489,906**	$ 451,185	$ 519,665
International – Seagoing			
Revenues	**$ 352,882**	$ 340,164	$ 234,639
Net income before income taxes and minority interest	**547**	(13,393)	(76,912)
Net income	**$ (19,130)**	$ (23,606)	$ (73,979)
Identifiable assets	**$ 718,241**	$ 742,486	$ 695,805
Summary			
Revenues	**$ 15,618,163**	$ 15,170,665	$ 13,102,960
Inter-area transfers	**(577,877)**	(535,570)	(343,663)
Total revenues	**15,040,286**	14,635,095	12,759,297
Net income	**$ 246,720**	$ 376,903	$ 143,592
Identifiable assets	**$ 22,337,059**	$ 19,794,887	$ 18,646,669
Eliminations	**(891,133)**	(998,765)	(1,044,720)
	$ 21,445,926	$ 18,796,122	$ 17,601,949

20. Pensions

At December 31, 1985, there were unfunded liabilities, determined by actuarial evaluations, of $407,100,000, which is being funded by series of equal annual payments ending from 1986 to 2004, and $221,100,000, which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $200,000,000 in 1985 (1984 – $230,000,000; 1983 – $232,000,000).

21. Commitments

At December 31, 1985, commitments for capital expenditures amounted to $434,000,000 and minimum payments under operating leases were estimated at $709,000,000 in the aggregate, with annual payments in each of the five years following 1985 of:

1986 – $122,000,000; 1987 – $110,000,000;
1988 – $90,000,000; 1989 – $65,000,000;
1990 – $49,000,000.

At December 31, 1985, unused commitments for long term financing amounted to $1,402,000,000 at interest rates varying with bank prime or money market rates, with commitment fees on $1,199,000,000 ranging from ⅛% to ¼%.

Unused lines of credit for short term financing, subject to periodic review, repayable on demand and at various maturities up to 365 days, amounted to $1,340,000,000 on which interest rates vary with bank prime or money market rates.

22. Contingencies

The Corporation is a defendant in two actions brought by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Corporation operates under a perpetual lease, alleging misuse of assets, breaches and termination of the perpetual lease, and claiming entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and the plaintiffs' actions succeeded in part. The Corporation appealed and the plaintiffs cross-appealed. On December 21, 1981, the Ontario Court of Appeal pronounced judgment allowing the Corporation's appeals, dismissing the plaintiffs' cross-appeals and substantially reversing the partial success that the plaintiffs had achieved at trial. The resulting judgments will not have any adverse effect on the financial condition of the Corporation. On June 22, 1982, the plaintiffs obtained leave to appeal to the Supreme Court of Canada from the judgments of the Court of Appeal and the appeals were heard in April, 1985. The Court has reserved judgment.

The Corporation believes that the appeals will not result in a judgment that will have a materially adverse effect on the financial condition of the Corporation.

On September 4, 1981, a representative of the holders of the consolidated debenture stock of the Ontario and Quebec Railway Company, who had been granted status by the Court as an intervenant in the above-mentioned appeal proceedings, commenced an action in the Supreme Court of Ontario on their behalf and on behalf of the minority shareholders of the Ontario and Quebec Railway Company against the Corporation, the Mercantile-Safe Deposit & Trust Company, and the Ontario and Quebec Railway Company seeking declarations respecting the ownership of rolling stock of the Corporation, a series of accounting proceedings relating to the rolling stock, a declaration that the Corporation's perpetual lease of the Ontario and Quebec Railway is void and damages. Counsel for the Corporation are of the opinion that this action can be successfully defended.

23. Reclassification

Certain prior years' figures have been reclassified to conform with the presentation adopted for 1985.

24. Supplementary Data

The discussion of Canadian and United States Accounting Principles included in Supplementary Data is an integral part of these financial statements.

Supplementary Data

The following data are provided to comply with certain disclosure requirements of the Securities and Exchange Commission (SEC) of the United States and recommendations of the Canadian Institute of Chartered Accountants.

Canadian and United States Accounting Principles

The consolidated financial statements of CP Limited have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. Over the years, a number of differences have developed between the accounting principles generally accepted in Canada and in the United States. For the information of the Corporation's United States shareholders, the major differences are described below and their effect on the Corporation's net income is summarized, their effect on the balance sheet not being significant.

The full cost method of accounting for Oil and Gas as promulgated by the SEC differs from the method followed by the Corporation in a number of respects. The primary differences are that Canadian GAAP permits capitalization of overhead which the SEC requires to be expensed and that Canadian GAAP permits the use of a world-wide full cost pool whereas the SEC requires that the cost centres be established on a country-by-country basis.

The method of recording income from land sales and gains on sale of income properties in proportion to proceeds realized and the sinking fund method of providing depreciation followed by the Real Estate segment in accordance with Canadian GAAP are not acceptable methods under United States GAAP. If United States accounting principles had been followed, income from land sales and gains on sale of income properties would have been recorded in total in the years that the transactions occurred and the straight-line method of depreciation would have been used.

Canadian GAAP permits deferred income tax balances to be carried forward on the balance sheet of an acquired company after a change in control, while United States GAAP requires such balances to be eliminated. Accordingly, when CIP was acquired, its deferred income tax balances were carried forward and since CIP recorded a loss in 1983 and 1982, the tax benefit of the loss carry forward has been recognized to the extent permissible under Canadian GAAP, by reducing deferred income taxes.

CP Limited follows the Canadian practice of deferring and amortizing unrealized gains and losses related to long term foreign currency assets and liabilities, whereas under United States GAAP such gains and losses are included in income immediately.

CP Rail, a department of CP Limited, expenses interest related to the construction of assets. Under United States GAAP such interest would be capitalized as part of the cost of the asset.

	1985	1984	1983	1982	1981
	(in thousands, except per share amounts)				
Net income – Canadian GAAP	$ 246,720	$ 376,903	$ 143,592	$ 188,294	$ 485,579
Increased or (decreased) by:					
Oil and Gas	(16,240)	(8,884)	(7,438)	(10,802)	(7,236)
Real Estate	(5,174)	(6,365)	(6,104)	(3,742)	(3,902)
Deferred Income Taxes	20,695	6,505	(21,190)	(37,206)	—
Foreign Exchange	(27,966)	(31,655)	(10,144)	(40,102)	12,846
Interest during Construction	12,885	4,000	—	—	—
	(15,800)	(36,399)	(44,876)	(91,852)	1,708
Net income – United States GAAP	$ 230,920	$ 340,504	$ 98,716	$ 96,442	$ 487,287
Earnings per Ordinary Share:					
Canadian GAAP	$ 1.11	$ 1.75	$ 0.66	$ 0.87	$ 2.25
United States GAAP	1.04	1.58	0.45	0.44	2.26

Oil and Gas Reporting

The following information on oil and gas producing activities was prepared in accordance with Financial Accounting Standards Board Statement No. 69. PanCanadian Petroleum Limited, a subsidiary of CP Limited, has prepared its financial statements utilizing the full cost method of accounting applied on a world-wide cost centre basis, in accordance with Canadian generally accepted accounting principles instead of in accordance with SEC full cost accounting requirements.

Oil and Gas Production, Exploration and Development (Unaudited)

Capitalized Costs	1985	1984
	(in thousands)	
Conventional petroleum and natural gas properties	$ 2,564,796	$ 2,152,068
Accumulated depletion and depreciation	801,615	670,913
	1,763,181	1,481,155
Other – net	302,002	309,638
	$ 2,065,183	$ 1,790,793

Costs Incurred in Conventional Oil and Gas Activities

Country	Purchase of Producing Properties	Property Acquisition	Exploration	Development
1985		(in thousands)		
Canada	$ —	$ 24,065	$ 117,134	$ 138,906
United States	79,416	11,885	19,909	15,370
Other	—	8	6,244	—
	$ 79,416	$ 35,958	$ 143,287	$ 154,276
1984				
Canada		$ 25,940	$ 124,021	$ 83,301
United States		11,174	13,493	11,905
Other		7	2,117	—
		$ 37,121	$ 139,631	$ 95,206
1983				
Canada		$ 21,406	$ 82,044	$ 77,247
United States		8,072	14,275	7,962
Other		45	1,881	—
		$ 29,523	$ 98,200	$ 85,209

Results of Operations for Producing Activities (Unaudited)

PanCanadian's conventional oil and gas activities may be summarized as follows:

	Canada	United States	Total
1985		(in thousands)	
Gross operating revenue	$ 852,247	$ 36,966	$ 889,213
Operating expenses	123,476	5,731	129,207
Depreciation	35,427	1,624	37,051
	158,903	7,355	166,258
Net operating revenue	$ 693,344	$ 29,611	722,955
Depletion			95,756
Income and revenue taxes			332,914
			428,670
Income from operations			$ 294,285
1984			
Gross operating revenue	$ 821,043	$ 26,618	$ 847,661
Operating expenses	92,111	3,836	95,947
Depreciation	35,023	1,130	36,153
	127,134	4,966	132,100
Net operating revenue	$ 693,909	$ 21,652	715,561
Depletion			77,066
Income and revenue taxes			336,365
			413,431
Income from operations			$ 302,130
1983			
Gross operating revenue	$ 680,518	$ 19,818	$ 700,336
Operating expenses	85,491	3,756	89,247
Depreciation	27,619	1,071	28,690
	113,110	4,827	117,937
Net operating revenue	$ 567,408	$ 14,991	582,399
Depletion			59,634
Income and revenue taxes			280,139
			339,773
Income from operations			$ 242,626

The full cost method of accounting on a world-wide cost centre basis does not permit a meaningful segmentation of depletion. The income and revenue taxes relate to Canada only, as the United States operations are in a non-taxable position.

Oil and Gas Reserves (Unaudited)

PanCanadian's net proved reserves of conventional oil, natural gas and natural gas liquids as estimated by PanCanadian engineers are summarized below. "Net" reserves are the gross reserves underlying the properties in which PanCanadian has either a working interest, less all royalties and interests owned by others, or a royalty interest.

	Oil (including natural gas liquids) (thousands of barrels)			Gas (billion cubic feet)		
	Canada	United States	Total	Canada	United States	Total
Net proved reserves: December 31, 1982	100,098	747	100,845	2,565	23	2,588
Revisions of previous estimates	7,717	92	7,809	138	(6)	132
Extensions and discoveries	9,264	490	9,754	116	5	121
1983 Production	(13,703)	(249)	(13,952)	(102)	(3)	(105)
Net proved reserves: December 31, 1983	103,376	1,080	104,456	2,717	19	2,736
Revisions of previous estimates	12,510	(268)	12,242	53	1	54
Extensions and discoveries	17,712	552	18,264	81	2	83
1984 Production	(15,579)	(380)	(15,959)	(120)	(4)	(124)
Net proved reserves: December 31, 1984	118,019	984	119,003	2,731	18	2,749
Revisions of previous estimates	4,078	98	4,176	17	3	20
Extensions and discoveries	14,828	584	15,412	82	4	86
Acquisition of reserves in place	—	5,672	5,672	—	15	15
1985 Production	(16,237)	(622)	(16,859)	(123)	(4)	(127)
Net proved reserves: December 31, 1985	120,688	6,716	127,404	2,707	36	2,743

Proved reserves are those reserves which geological and engineering data demonstrate with reasonable certainty to be recoverable in the future at commercial production rates under present depletion methods and current operating conditions, prices and costs. Essentially all of PanCanadian's proved crude oil reserves are considered to be developed and recoverable through existing wells with existing facilities. In the case of PanCanadian's proved natural gas and associated liquids reserves, sufficient wells exist in most instances to meet required initial withdrawal rates from the respective reservoirs. As a result, the natural gas and natural gas liquids reserves are considered to be developed even though additional drilling will be required in certain cases to drain effectively the respective reservoirs in a desirable length of time.

Standardized Measure of Discounted Future Net Cash Flows (Unaudited)

The Financial Accounting Standards Board acknowledges that the standardized measure of discounted net cash flows cannot be considered an estimate of fair market value. The inclusion of this information should not be interpreted as indicating that PanCanadian believes that valid inferences as to the probable measure of fair market value or future economic position can be derived therefrom.

The standardized measure of discounted future net cash flows is set forth below:

	Canada	United States	Total
1985		(in thousands)	
Future cash inflows	$ 10,180,328	$ 342,030	$ 10,522,358
Future production and development costs	2,187,534	59,791	2,247,325
Future income tax expenses	2,986,729	—	2,986,729
Future revenue tax expenses	174,612	—	174,612
Future net cash flows	4,831,453	282,239	5,113,692
10% annual discount for estimated timing of cash flows	2,411,999	156,173	2,568,172
Standardized measure of discounted future net cash flows	$ 2,419,454	$ 126,066	$ 2,545,520
1984			
Future cash inflows	$ 10,799,898	$ 112,928	$ 10,912,826
Future production and development costs	2,368,884	22,392	2,391,276
Future income tax expenses	3,200,187	—	3,200,187
Future revenue tax expenses	1,130,006	—	1,130,006
Future net cash flows	4,100,821	90,536	4,191,357
10% annual discount for estimated timing of cash flows	2,046,599	32,136	2,078,735
Standardized measure of discounted future net cash flows	$ 2,054,222	$ 58,400	$ 2,112,622

Future net cash flows were computed using year-end prices and year-end statutory tax rates (adjusted for permanent differences and known scheduled future rate changes) that relate to existing proved oil and gas reserves.

Subsequent to year end the world price of crude oil declined by approximately $12.00 per barrel, to February 10, 1986. Had this decline been incorporated in the computation, standardized measure of discounted future net cash flows for 1985 would have reflected a reduction of approximately $484 million from those reported above.

The following table sets out the principal sources of change in the standardized measure of discounted future net cash flows:

	1985	1984	1983
		(in thousands)	
Standardized measure of discounted future net cash flows at beginning of year	$ 2,112,622	$ 1,874,924	$ 1,987,630
Add:			
Additions to proved reserves net of capital and production costs	275,517	388,442	131,268
Acquisition of reserves in place	75,384	—	—
Expenditures that reduced estimated future development costs	20,816	7,403	19,164
Accretion of discount	394,089	354,649	368,526
Revisions of previous estimates	128,150	680,238	149,832
Net changes in income and revenue taxes	464,856	—	74,108
	1,358,812	1,430,732	742,898
Deduct:			
Net changes in prices and production costs	165,908	199,377	244,399
Sales of oil and gas produced, net of production costs and mineral taxes	760,006	751,993	611,205
Net changes in income and revenue taxes	—	241,664	—
	925,914	1,193,034	855,604
Standardized measure of discounted future net cash flows at end of year	$ 2,545,520	$ 2,112,622	$ 1,874,924

Taxation of United States Shareholders

Under the terms of the Canadian Income Tax Act and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of CP Limited (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by United States residents of securities issued by CP Limited are exempt from Canadian tax unless the securities were either held in the conduct of a Canadian business or held by a former long-term resident of Canada.

Quarterly Financial Information (Unaudited)
Statement of Consolidated Income

For the three months ended		March 31		June 30		September 30		December 31
	1985 (in thousands, except per share amounts)							
Rail Transportation								
Revenues	$	767,223	$	894,925	$	813,639	$	891,428
Expenses including income taxes		751,273		856,209		800,196		841,680
		15,950		38,716		13,443		49,748
Minority interest		1,151		(3,134)		(2,385)		(2,531)
Net income		14,799		41,850		15,828		52,279
Non-Rail Transportation								
Revenues		478,138		547,349		599,804		520,439
Expenses including income taxes		486,240		541,190		582,431		544,796
		(8,102)		6,159		17,373		(24,357)
Minority interest		3,280		5,243		4,164		3,644
Net income		(11,382)		916		13,209		(28,001)
Oil and Gas								
Revenues		303,872		275,248		246,545		311,440
Expenses including income taxes		215,530		206,715		187,452		228,745
		88,342		68,533		59,093		82,695
Minority interests		34,638		26,910		23,237		25,299
Net income		53,704		41,623		35,856		57,396
Mines and Minerals								
Revenues		438,080		579,250		377,029		416,866
Expenses including income taxes		431,464		571,666		405,013		520,017
		6,616		7,584		(27,984)		(103,151)
Minority interests		3,795		4,369		(17,801)		(69,997)
Net income		2,821		3,215		(10,183)		(33,154)
Forest Products								
Revenues		542,659		547,169		541,723		530,374
Expenses including income taxes		546,383		553,043		548,734		531,977
		(3,724)		(5,874)		(7,011)		(1,603)
Minority interests		763		(1,772)		(2,068)		1,681
Net income		(4,487)		(4,102)		(4,943)		(3,284)
Steel and Industrial Products								
Revenues		767,936		857,869		815,875		847,059
Expenses including income taxes		765,852		851,902		811,522		838,242
		2,084		5,967		4,353		8,817
Minority interests		3,547		6,342		5,316		7,435
Net income		(1,463)		(375)		(963)		1,382
Real Estate								
Revenues		68,190		68,154		68,771		74,438
Expenses including income taxes		61,368		63,721		61,134		64,578
		6,822		4,433		7,637		9,860
Minority interests		2,128		1,429		2,390		2,677
Net income		4,694		3,004		5,247		7,183
Other Businesses								
Revenues		287,137		314,370		258,032		283,763
Expenses including income taxes		280,948		313,002		248,927		272,327
		6,189		1,368		9,105		11,436
Minority interests		1,566		247		2,675		2,840
Net income		4,623		1,121		6,430		8,596
Financial and Miscellaneous								
Revenues		53,184		54,334		49,142		51,530
Expenses including income taxes		58,677		56,161		54,271		63,058
		(5,493)		(1,827)		(5,129)		(11,528)
Minority interest		301		999		1,452		(10)
Net income		(5,794)		(2,826)		(6,581)		(11,518)
Net Income	$	57,515	$	84,426	$	53,900	$	50,879
Earnings per Ordinary Share	$	0.27	$	0.39	$	0.25	$	0.20

Quarterly Financial Information (Unaudited)

Statement of Consolidated Income

For the three months ended	1984 March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Rail Transportation				
Revenues	$ 706,239	$ 748,963	$ 770,933	$ 763,343
Expenses including income taxes	671,155	694,627	695,707	719,286
	35,084	54,336	75,226	44,057
Minority interest	2,714	895	4,318	2,330
Net income	32,370	53,441	70,908	41,727
Non-Rail Transportation				
Revenues	415,388	481,588	549,903	500,859
Expenses including income taxes	438,499	483,034	530,041	495,904
	(23,111)	(1,446)	19,862	4,955
Minority interest	(117)	1,440	1,894	3,819
Net income	(22,994)	(2,886)	17,968	1,136
Oil and Gas				
Revenues	270,939	251,053	244,643	288,723
Expenses including income taxes	193,865	179,864	178,541	203,059
	77,074	71,189	66,102	85,664
Minority interests	30,049	27,797	25,842	33,546
Net income	47,025	43,392	40,260	52,118
Mines and Minerals				
Revenues	472,109	537,225	482,598	457,913
Expenses including income taxes	464,726	512,733	471,338	456,806
	7,383	24,492	11,260	1,107
Minority interests	5,142	15,498	8,425	549
Net income	2,241	8,994	2,835	558
Forest Products				
Revenues	509,624	551,568	575,056	563,083
Expenses including income taxes	539,109	557,726	575,848	528,715
	(29,485)	(6,158)	(792)	34,368
Minority interests	(11,245)	(1,745)	(139)	17,960
Net income	(18,240)	(4,413)	(653)	16,408
Steel and Industrial Products				
Revenues	736,527	802,891	725,013	753,196
Expenses including income taxes	751,431	797,780	744,342	769,977
	(14,904)	5,111	(19,329)	(16,781)
Minority interests	(5,606)	7,042	(10,728)	(9,294)
Net income	(9,298)	(1,931)	(8,601)	(7,487)
Real Estate				
Revenues	66,274	66,273	71,278	73,745
Expenses including income taxes	61,986	58,232	60,663	68,913
	4,288	8,041	10,615	4,832
Minority interests	1,342	2,480	3,268	1,569
Net income	2,946	5,561	7,347	3,263
Other Businesses				
Revenues	342,385	387,088	341,703	404,510
Expenses including income taxes	334,201	379,455	332,933	382,646
	8,184	7,633	8,770	21,864
Minority interests	2,311	2,071	2,453	6,583
Net income	5,873	5,562	6,317	15,281
Financial and Miscellaneous				
Revenues	47,580	51,973	51,047	81,305
Expenses including income taxes	53,307	60,468	55,409	86,220
	(5,727)	(8,495)	(4,362)	(4,915)
Minority interest	836	1,672	2,264	1,854
Net income	(6,563)	(10,167)	(6,626)	(6,769)
Net Income	$ 33,360	$ 97,553	$ 129,755	$ 116,235
Earnings per Ordinary Share	$ 0.15	$ 0.46	$ 0.60	$ 0.54

Reporting the Effects of Changing Prices (Unaudited)

CICA Experiment on Effects of Changing Prices

Although for many years the accounting profession has grappled with the problem of developing techniques that will measure the impact of changing prices on an enterprise, *there is still no consensus as to what constitutes a proper approach to the problem and as to whether the various techniques developed, when applied, result in information that has any practical usefulness.*

It is against this background that Canada's largest public companies have been invited by the Canadian Institute of Chartered Accountants (CICA) to produce, by way of experiment, supplementary information about the effects of changing prices. While the Corporation has decided to participate in the experiment, it believes that application of the computational techniques prescribed by the CICA results in data that are of limited value.

The CICA itself concedes that application of its recommendations to oil and gas, mining and forest products operations is not always practicable and may not yield meaningful data. Furthermore, in recognition of the difficulties involved, the CICA decided that income producing real estate and insurance operations, among others, should be exempted from its recommendations. Consequently, the results and assets of Marathon Realty Company and Chateau Insurance Company are included at their historical cost amounts.

Information about Effects of Changing Prices

In preparing information about the effects of changing prices on inventories and properties, it was assumed, in accordance with the CICA's recommendations, that the Corporation's level of operations existing at year end would be maintained through replacement with like assets at current prices. In reality, decisions regarding whether or not assets will be replaced and the manner of replacement will be made in the light of future economic, regulatory, technological and competitive conditions. It must not be assumed, therefore, that the Corporation's operating capability will be maintained in the form and manner assumed in developing the CICA data. It must not also be assumed that the CICA approach, which implies that assets are being renewed as they are consumed, reflects the Corporation's asset replacement policy. Assets, if they are to be replaced, will be replaced at intervals which may be lengthy and when revenue levels are likely to support replacement costs.

The assumption that operating capability will be maintained is particularly questionable in the context of the Corporation's natural resource activities. Oil and gas wells and mines are unique in terms of location, ground conditions and potential and when depleted they cannot be specifically replaced. Even if new reserves in existing quantities could be found, the current cost of finding such reserves would be difficult to determine.

It should be noted that, in accordance with the CICA's recommendations, income taxes as reported in the Corporation's audited financial statements have not been restated in computing income on the recommended current cost basis. To call for hypothetical increases to depreciation, cost of goods sold and operating expenses resulting from inflation without giving recognition to a hypothetical reduction in income taxes may, in the Corporation's opinion, significantly overstate the impact of higher prices on an enterprise.

It should also be noted that the new CICA data were necessarily developed on the basis of assumptions and subjective estimates that are not verifiable and the adoption of different, but equally valid, assumptions could produce materially different results.

Bases for Determining Current Costs

A variety of methods was used to determine the current cost of properties, including published indices, manufacturers' prices, appraisal values and engineering estimates. Because there is no generally accepted method for measuring the current cost of replacing existing oil, gas and mineral reserves, estimates of the current cost of petroleum, natural gas and mining properties have been compiled by application of indices (including the Consumer Price Index) to historical costs. However, because the activities and, therefore, the costs required to replace existing reserves are unpredictable, application of indices to historical costs results in current cost estimates that may be grossly misstated.

The current cost of inventories was estimated based on current suppliers' prices, recent manufacturing costs and published price indices.

Statement of Consolidated Income on a Current Cost Basis Assuming Maintenance of Existing Operating Capability

for the Year ended December 31

	1985	1984
	(in thousands)	
Net income, historical cost basis	$ 246,720	$ 392,004
Adjustments to reflect changes in current costs:		
Cost of goods sold and operating expenses	18,896	78,875
Depreciation, depletion and amortization	752,733	722,288
Gains on disposal of properties	11,675	17,814
	783,304	818,977
Less: Interest of outside shareholders	244,068	256,716
	539,236	562,261
Net income on a current cost basis	(292,516)	(170,257)
Financing adjustment	304,900	256,272
Net income attributable to common shareholders on a current cost basis	$ 12,384	$ 86,015
The provision for income taxes of $421 million (1984 – $539 million) has not been adjusted from the amount reflected in the Corporation's audited financial statements. If the adjustments to reflect changes in current costs were recognized for tax purposes, the reduction in the Corporation's income tax expense would result in the net income attributable to common shareholders being approximately	$ 293,800	$ 327,100

The 1984 comparative figures have been restated to dollars of 1985 average purchasing power.

The Corporation's income on a current cost basis, which has been prepared in accordance with, and which reflects the inherent limitations of the experimental techniques prescribed by the CICA, is below historical cost income. This is primarily due to significantly higher charges (1985 – $753 million; 1984 – $722 million) for depreciation, depletion and amortization. Included in the higher depreciation charges, however, are estimated amounts totalling $166 million (1984 – $165 million) for oil and gas and mining operations – activities for which the CICA experiment has little relevance.

On the assumption that the Corporation will continue to use a combination of debt and equity to finance its operations, the financing adjustment provides a measure of the extent to which common shareholders will be shielded from the higher costs of replacing inventories and properties. The CICA recommendations require that the financing adjustment, which reflects the portion of current cost increases financed through net borrowings, be shown on two bases. The adjustment of some $305 million (1984 – $256 million) which is reflected in the Corporation's current cost income attributable to common shareholders is based on the total increase in current costs during the year. If the financing adjustment had been based on current cost adjustments to income, it would have amounted to some $183 million (1984 – $161 million).

Schedule of Consolidated Assets on a Current Cost Basis

as at December 31	1985	1985	1984
	Historical Cost Basis	Current Cost Basis	Current Cost Basis
		(in thousands)	
Inventories	$ 2,047,834	$ 2,103,944	$ 2,141,960
Properties (net)	15,437,742	28,488,583	26,806,252
Net Assets (common shareholders' equity)	6,146,813	16,919,792	14,421,641

Net assets on a current cost basis consist of common shareholders' equity on an historical cost basis, plus the difference (net of interest of outside shareholders) between the current and historical cost of inventories and properties.

Properties on a current cost basis as at December 31, 1985 reflect write-downs to lower recoverable amounts of approximately $800 million, of which $792 million pertains to 1985.

The 1984 comparative figures have been restated to dollars of 1985 year-end purchasing power.

Other Supplementary Information

for the Year ended December 31	1985	1984
	(in thousands)	
Increase in the current cost amounts of inventories and properties	$ 1,306,464	$ 1,305,128
Effect of general inflation	1,145,786	988,429
Excess of increase in current cost over the effect of general inflation	$ 160,678	$ 316,699
Gain in general purchasing power from having net monetary liabilities	$ 333,900	$ 275,000

The 1984 comparative figures have been restated to dollars of 1985 average purchasing power.

Included under Other Supplementary Information are additional data called for by the CICA. The increase in the current cost amounts of inventories and properties, less the effect of general inflation, indicates that during 1985 the value of the Corporation's assets, measured in current costs, increased at a higher rate than the rate of general inflation as measured by the Consumer Price Index.

The gain in general purchasing power from having net monetary liabilities represents the benefit to the Corporation from financing part of its operations with debt which, because of inflation, has declined in real terms.

Reserve Data

The CICA requires certain quantity disclosures for companies with interests in mineral and oil and gas reserves. The disclosures covering oil and gas reserves are included as supplementary data under Oil and Gas Reporting.

Major Proven and Probable Ore Reserves

	Dec. 31 1983	Changes during the Year Production	Discoveries	Revisions	Dec. 31 1984	Changes during the Year Production	Discoveries	Revisions	Dec. 31 1985
	(in thousands of short tons)								
Cominco Ltd.									
Sullivan, Pine Point (51.4% owned), Polaris, Black Angel (62.5% owned) and Magmont Mines (50% owned)	99,800	(8,000)	10,000	(1,900)	99,900	(7,700)	2,900	(13,600)	81,500
Buckhorn Mine	5,100	(194)	194	(2,000)	3,100	(600)	700	—	3,200
Con-Rycon Mine	1,900	(244)	159	(115)	1,700	(200)	100	(100)	1,500
Valley Mine	509,000	(9,300)	116,300	—	616,000	(10,200)	2,200	—	608,000
Warm Springs Mine	7,700	(210)	110	—	7,600	(200)	100	—	7,500
Vade Mine	152,000	(3,800)	1,600	200	150,000	(3,300)	1,100	200	148,000
Fording Coal Limited									
Fording River Operations	237,000	(4,400)	—	6,300	238,900	(4,300)	—	(300)	234,300
Thermal Coal	2,056,800	(5,500)	—	(81,300)	1,970,000	(7,300)	—	(18,900)	1,943,800
The Algoma Steel Corporation, Limited									
Wawa Mine	45,340	(1,414)	—	56	43,982	(1,301)	—	(1,130)	41,551
Tilden Mine (30% owned)	79,903	(1,796)	—	—	78,107	(2,014)	—	—	76,093
Cannelton Mines									
Metallurgical Coal	184,809	(1,740)	—	(43,173)	139,896	(1,415)	—	(11,430)	127,051
Thermal Coal	79,084	(1,052)	—	17,225	95,257	(1,224)	—	10,589	104,622

The reserve and production quantities listed for the associated companies of Cominco represent the full amounts and not Cominco's share. The reserve and production quantities for the Tilden Mine represent Algoma's share only.

The reserve and production quantities included above for Cominco are stated in tons of ore, while the quantities for Algoma are stated in product tons of sinter (46% iron) and pellets (65% iron) at the Wawa and Tilden mines respectively.

The reserve and production quantities noted for Fording Coal, and Algoma's Cannelton Mines, are stated in short tons of cleaned coal.

Fording currently receives only a royalty from the production of its thermal coal reserves.

Total expenditures on exploration for minerals in the year 1985 amounted to $42,000,000.

Mineral Content of Reserves and Production

		Minerals Contained in Reserves December 31 1985	1984	Production during year (tons are short tons)
Cominco Ltd.				
Sullivan, Pine Point, Polaris, Black Angel and Magmont Mines	Lead	4.0%	4.0%	377,700 tons (concentrate)
	Zinc	8.1%	7.6%	828,100 tons (concentrate)
	Silver (Sullivan and Black Angel only)	1 oz. per ton	1 oz. per ton	
Buckhorn Mine	Gold	0.04 oz. per ton	0.04 oz. per ton	12,800 oz.
Con-Rycon Mine	Gold	0.40 oz. per ton	0.42 oz. per ton	78,000 oz.
Valley Mine	Copper	0.47%	0.47%	43,600 tons (contained metal)
Warm Springs Mine	P_2O_5	30.0%	30.0%	236,200 tons (phosphate rock)
Vade Mine	K_2O	25.3%	25.3%	1,140,000 tons (concentrate)

Ten-Year Summary

	1985	1984	1983	1982
(Figures in millions, except per share amounts)				
Revenues	**$ 15,040.3**	$ 14,635.1	$ 12,759.3	$ 12,301.9
Net income from:				
Rail Transportation	**$ 124.7**	$ 198.5	$ 195.6	$ 131.5
Non-Rail Transportation	**(25.3)**	(6.8)	(84.5)	(57.9)
Oil and Gas	**188.6**	182.8	147.3	141.8
Mines and Minerals	**(37.3)**	14.6	(16.3)	(7.5)
Forest Products	**(16.8)**	(6.9)	(69.3)	(68.7)
Steel and Industrial Products	**(1.4)**	(27.3)	(65.5)	(18.2)
Real Estate	**20.1**	19.1	18.1	18.5
Other Businesses	**20.8**	33.0	30.0	25.8
Financial and Miscellaneous	**(26.7)**	(30.1)	(11.8)	23.0
Net income	**$ 246.7**	$ 376.9	$ 143.6	$ 188.3
Total assets	**$ 21,445.9**	$ 18,796.1	$ 17,601.9	$ 17,273.0
Total long term debt	**$ 6,683.5**	$ 5,609.0	$ 5,536.4	$ 5,538.7
Perpetual 4% Consolidated Debenture Stock	**185.0**	157.8	292.5	292.5
Minority shareholders' interest in subsidiary companies	**2,046.6**	2,997.2	2,674.4	2,586.6
Shareholders' equity	**6,161.7**	4,522.9	4,052.6	3,991.0
Total capitalization	**$ 15,076.8**	$ 13,286.9	$ 12,555.9	$ 12,408.8
Per Ordinary Share:				
Net income	**$ 1.11**	$ 1.75	$ 0.66	$ 0.87
Dividends	**0.48**	0.47	0.47	0.55
Number of Ordinary Shares				
Actual	**297.7**	215.0	215.0	215.0
Average	**220.8**	215.0	215.0	215.0

1981	1980	1979	1978	1977	1976
$ 12,336.3	$ 9,984.5	$ 8,177.8	$ 6,724.5	$ 4,899.0	$ 4,047.2
$ 150.2	$ 144.7	$ 126.5	$ 90.7	$ 76.4	$ 69.5
25.4	51.5	37.6	13.5	(6.2)	(4.4)
125.9	155.3	114.9	111.8	91.6	62.2
27.9	74.3	103.9	42.0	38.2	29.3
11.5	33.7	38.0	15.1	8.4	4.4
66.4	45.2	47.9	34.0	15.0	9.2
17.0	15.5	15.3	12.6	9.6	8.8
29.9	19.4	13.3	(3.2)	9.7	3.6
31.4	43.6	10.7	33.3	4.3	7.9
$ 485.6	$ 583.2	$ 508.1	$ 349.8	$ 247.0	$ 190.5
$ 16,330.2	$ 13,038.5	$ 11,002.4	$ 9,255.9	$ 7,631.4	$ 7,064.3
$ 4,647.6	$ 2,997.5	$ 2,623.6	$ 2,454.2	$ 2,045.5	$ 1,948.9
292.5	292.5	292.5	292.5	292.5	292.5
2,477.4	2,251.9	1,754.3	1,310.9	1,021.3	854.6
3,929.4	3,523.2	2,988.0	2,586.7	2,301.6	2,123.6
$ 11,346.9	$ 9,065.1	$ 7,658.4	$ 6,644.3	$ 5,660.9	$ 5,219.6
$ 2.25	$ 2.70	$ 2.35	$ 1.62	$ 1.14	$ 0.87
0.63	0.62	0.57	0.37	0.32	0.29
215.0	215.0	215.0	215.0	215.0	215.0
215.0	215.0	215.0	215.0	215.0	215.0

Geographic Distribution of Net Property Investment

at December 31, 1985	Properties, at Cost less Depreciation (in millions)	Percent of Total
Canada		
Atlantic Provinces	$ 332	2
Quebec	**1,121**	7
Ontario	**3,056**	20
Manitoba	**262**	2
Saskatchewan	**472**	3
Alberta	**2,402**	16
British Columbia	**2,192**	14
N.W.T., Yukon & Offshore	**322**	2
Transportation Equipment	**1,852**	12
	12,011	78
Outside Canada		
United States	**2,731**	17
Other	**122**	1
Ocean Ships	**574**	4
	3,427	22
Total	**$ 15,438**	100

Ordinary Share Market Prices*

	Toronto Stock Exchange				New York Stock Exchange			
	1985		1984		**1985**		1984	
	High	Low	High	Low	High	Low	High	Low
	(Canadian dollars)				(U.S. dollars)			
First Quarter	**21¼**	**16⅛**	17⅞	14⅛	**15⅛**	**12¼**	14¼	11
Second Quarter	**21¾**	**18½**	14⅞	12¾	**15¾**	**13½**	11⅝	9⅞
Third Quarter	**19⅞**	**15⅞**	16⅛	12⅜	**14⅝**	**11¾**	12⅜	9⅜
Fourth Quarter	**18⅞**	**15⅞**	16¾	15	**13½**	**11⅝**	12⅝	11⅜
Year	**21¾**	**15⅞**	17⅞	12⅜	**15¾**	**11⅝**	14¼	9⅜

*Adjusted to reflect 3-for-1 share split on May 17, 1985.

Transfer Agents

Montreal Trust Company
1690 Hollis Street,
Halifax, N.S. B3J 3J9;

61 King Street,
Saint John, N.B. E2L 1G5;

777 Dorchester Boulevard West,
Montreal, Quebec H3B 4A8;

15 King Street West,
Toronto, Ontario M5H 1B4;

221 Portage Avenue,
Winnipeg, Manitoba R3B 2A6;

1908-11th Avenue,
Regina, Saskatchewan S4P 0J1;

411-8th Avenue, S.W.,
Calgary, Alberta T2P 1E7;

510 Burrard Street,
Vancouver, B.C. V6C 3B9.

Bank of Montreal Trust Company
2 Wall Street,
New York, N.Y. 10005.

**Deputy Secretary,
Canadian Pacific Limited**
50 Finsbury Square,
London, England EC2A 1DD.

Stock and Share Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Shares (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Shares (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Shares listed on:
Montreal, Toronto, Alberta, Vancouver, New York and London, Eng. Stock Exchanges.

Share Holdings

The number of registered holdings of the voting shares of the Corporation at December 31, 1985 was 84,162.

The distribution by countries of total voting rights of the Ordinary and Preference Shares at that date was as follows:

Canada	79.44%
United States	15.40
United Kingdom	1.79
Other Countries	3.37
	100.00%

Dividend Reinvestment and Share Purchase Plan

Registered holders of Canadian Pacific Limited Ordinary Shares may acquire new Ordinary Shares, at market value, through reinvestment of cash dividends and/or investing optional cash payments, without paying brokerage commissions or administrative charges. An information circular providing details of the Plan may be obtained by writing to the Secretary of the Corporation.

Shareholders having inquiries or wishing to obtain copies of the Corporation's non-consolidated (parent company) financial statements or its Form 10-K filed with the Securities and Exchange Commission should write to:

D.J. Deegan,
Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Quebec
H3C 3E4

Board of Directors

Lloyd I. Barber, O.C., Ph.D.,
President, University of Regina, Regina

* **F.S. Burbidge,**
Chairman, Canadian Pacific Limited, Montreal

* **Robert W. Campbell,**
Vice-Chairman, Canadian Pacific Limited, Calgary

C.A. Fielding,
Honorary Chairman and Chief Executive Officer, Alexander Centre Industries Limited, Sudbury

Thomas M. Galt,
Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada, Toronto

Allard Jiskoot,
Director and Former Chairman of the Board, Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands

A.S. Kingsmill, Q.C.,
Partner, Law firm of Tilley, Carson & Findlay, Toronto

C. Merv Leitch, Q.C.,
Partner, Law firm of Macleod Dixon, Calgary

The Hon. Peter Lougheed, P.C., Q.C.,
Senior Partner, Law firm of Bennett Jones, Calgary

Angus A. MacNaughton,
Chairman and Chief Executive Officer, Genstar Corporation, San Francisco

Donald C. Matthews,
President and General Manager, Highland Stock Farms Ltd., Calgary

* **W. Earle McLaughlin, O.C.,**
Director and Former Chairman of the Board, The Royal Bank of Canada, Montreal

Stanley A. Milner,
President and Chief Executive Officer, Chieftain Development Co. Ltd., Edmonton

† **J.H. Moore,**
Corporate director, Former Chairman of the Board, John Labatt Limited, London, Ontario

William D. Mulholland,
Chairman and Chief Executive Officer, Bank of Montreal, Toronto

The Hon. John L. Nichol, O.C.,
Corporate director, Vancouver

* **Paul L. Paré, O.C.,**
Chairman and Chief Executive Officer, Imasco Limited, Montreal

The Rt. Hon. Lord Polwarth, T.D., D.L.,
Director, Bank of Scotland, Edinburgh, Scotland

*† **Claude Pratte, Q.C.,**
Partner, Law firm of Stein, Monast, Pratte & Marseille, Quebec

* **C. Douglas Reekie,**
Vice-Chairman of the Board, CAE Industries Ltd., Toronto

† **Lucien G. Rolland, O.C.,**
Chairman and Chief Executive Officer, Rolland inc., Montreal

Thomas G. Rust,
Chairman of the Board, Crown Forest Industries Limited, Vancouver

F.H. Sherman,
Chairman and Chief Executive Officer, Dofasco Inc., Hamilton

R.D. Southern,
Deputy Chairman and Chief Executive Officer, ATCO Ltd., Calgary

* **W.W. Stinson,**
President and Chief Executive Officer, Canadian Pacific Limited, Montreal

Jean Casselman Wadds, O.C.,
Corporate director, Former Commissioner, Royal Commission on the Economic Union and Development Prospects for Canada, Ottawa

* **Ray D. Wolfe, C.M.,**
Chairman and Chief Executive Officer, The Oshawa Group Limited, Toronto

* Member of the Executive Committee
† Member of the Audit Committee

Officers

F.S. Burbidge,
Chairman, Montreal

Robert W. Campbell,
Vice-Chairman, Calgary

W.W. Stinson,
President and Chief Executive Officer, Montreal

J.C. Anderson,
Vice-President Personnel, Montreal

K.S. Benson,
Vice-President Administration, Calgary

J.P.T. Clough,
Vice-President Finance and Accounting, Montreal

S.E. Eagles,
Vice-President Corporate, Toronto

R.K. Gamey,
Group Vice-President, Calgary

J.F. Hankinson,
Group Vice-President, Calgary

C.R.O. Munro, Q.C.,
Vice-President Law and General Counsel, Montreal

D.J. Deegan,
Secretary, Montreal

D.E. Sloan,
Treasurer, Toronto

J. Thomson,
Comptroller, Montreal

Directorate

At the Annual Meeting of Shareholders held on May 1, 1985, Mr. A.M. Runciman, O.C. retired, having attained the age limit for directors as prescribed in the Corporation's by-laws. The directors desire to record their recognition of the notable contribution to the affairs of the Corporation made by Mr. Runciman during his tenure as a director. Mr. C. Douglas Reekie was elected a director to replace Mr. Runciman. The Hon. John L. Nichol, O.C. and Messrs. Thomas M. Galt, C. Merv Leitch, Q.C., Angus A. MacNaughton and R.D. Southern were elected directors of the Corporation at the Special Meeting of the Shareholders held on December 5, 1985, effective upon implementation of the merger of Canadian Pacific Enterprises Limited and the Corporation on December 6, 1985. The resignations of Messrs. Paul Desmarais, O.C. and James W. Burns for personal reasons, effective December 19, 1985, were received with regret. Their contribution to the deliberations of the Board of Directors was significant. The Hon. Peter Lougheed, P.C., Q.C., was appointed a director on January 13, 1986, to replace Mr. Burns.

A copy of the 1985 annual report of each of the following companies can be obtained by writing to its Secretary at the address shown below:

Soo Line Corporation
Soo Line Building
Box 530
Minneapolis, Minnesota 55440

Canadian Pacific Air Lines, Limited
1055 Dunsmuir Street
P.O. Box 49370
Vancouver, British Columbia
V7X 1R9

PanCanadian Petroleum Limited
PanCanadian Plaza
P.O. Box 2850
Calgary, Alberta
T2P 2S5

Cominco Ltd.
Suite 2300
200 Granville Street
Vancouver, British Columbia
V6C 2R2

Steep Rock Resources Inc.
40 University Ave.
Toronto, Ontario
M5J 2G5

Great Lakes Forest Products Limited
P.O. Box 430
Thunder Bay, Ontario
P7C 4W3

The Algoma Steel Corporation, Limited
503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2

AMCA International Limited
Dartmouth National Bank Building
Hanover, New Hampshire 03755

Marathon Realty Company Limited
Suite 1100, University Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Maple Leaf Mills Limited
P.O. Box 710
Station "K"
Toronto, Ontario
M4P 2X5

Canadian Pacific Securities Limited
Suite 800, University Place
123 Front Street West
Toronto, Ontario
M5J 2M2

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Québec, Canada
H3C 3E4

Legal deposit, 1st quarter (1986)
Printed in Canada

Canadian Pacific Limited

Notice of Annual Meeting of Shareholders

Notice is hereby given that the 104th Annual Meeting of Shareholders of Canadian Pacific Limited (the Corporation) will be held on Wednesday, May 1, 1985, at The Palliser Hotel, 9th Avenue and 1st Street South West, Calgary, Alberta, Canada, at 11:00 a.m., Calgary time, for the following purposes:

(a) to receive the Report of the Directors, the accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31, 1984;

(b) to elect directors;

(c) to appoint auditors;

(d) to consider and, if thought advisable, to pass a special resolution to amend the articles of continuance of the Corporation to subdivide its Ordinary Shares and its Preference Shares on a three-for-one basis and to make certain consequential amendments to the said articles. The text of this special resolution is set out on page 16 of the accompanying Proxy Statement which forms part of this notice;

(e) to consider and, if thought advisable, to pass a special resolution to amend the articles of continuance of the Corporation to change the maximum number of Ordinary Shares that the Corporation is authorized to issue from 100,000,000 to an unlimited number. The text of this special resolution is set out on page 21 of the accompanying Proxy Statement which forms part of this notice;

(f) to transact such other business as may properly come before the meeting.

The Board of Directors has specified that proxies to be used at the Annual Meeting of Shareholders or an adjournment thereof must be deposited with the Corporation at Montreal, Quebec, Canada, not later than 11:59 p.m., Montreal time, Monday, April 29, 1985.

By order of the Board of Directors,
D.J. Deegan, Secretary.
Montreal, March 11th, 1985.

NOTE:
If you are unable to attend the meeting in person, please complete and return the enclosed form of proxy in the envelope provided.

Canadian Pacific Limited

Registered Office: 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, Canada H3C 3E4

Management Proxy Statement
for Annual Meeting of Shareholders, Wednesday, May 1, 1985, at Calgary, Alberta, Canada.

Approximate date proxy material first sent to shareholders: March 29, 1985.

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation by the management of Canadian Pacific Limited (the Corporation) of proxies for use at the Annual Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the foregoing notice of meeting or any adjournment thereof. The cost of solicitation will be borne by the Corporation. The solicitation will be primarily by mail. However, certain officers and employees of the Corporation may also solicit proxies by telephone or in person and the firm of Hill & Knowlton, Inc. has been engaged to solicit proxies from brokers, banks and nominees by mail, by telephone or in person in the United States at a cost of $10,000 plus out-of-pocket expenses.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of the Corporation may be given in person or by proxy whether or not the proxyholder is a shareholder.

A shareholder giving a proxy has the right under subsection 142(4) of the Canada Business Corporations Act (CBCA) to revoke the proxy (1) by instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof or (2) in any other manner permitted by law.

Voting Shares as Specified

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the enclosed form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted for the election of directors, the appointment of auditors and the passing of special resolutions to amend the articles of the Corporation to subdivide its Ordinary and Preference Shares and to make certain consequential amendments and to change the authorized number of Ordinary Shares.**

Exercise of Discretion by Proxyholders

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Proxy Statement, the management of the Corporation knows of no such amendments, variations or other matters to come before the meeting.

Voting Securities

On March 11, 1985, there were outstanding 71,662,280 Ordinary Shares, 3,846,397 Canadian Dollar Preference Shares and 864,923 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of both the Ordinary and the Preference Shares are entitled to vote together at the Annual Meeting, giving a total entitlement of 76,373,600 votes. The Board of Directors has fixed the close of business on March 20, 1985, as the record date for the purpose of determining shareholders entitled to receive notice of the meeting but the failure of any shareholder of the Corporation to receive a notice of a meeting of shareholders of the Corporation does not deprive the shareholder of a vote at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

Principal Holders of Voting Securities

As of March 11, 1985, except for the shares deemed to be beneficially owned by Messrs. Paul Desmarais, James W. Burns (see footnote (1) to the following table) and Clifford A. Fielding (see footnote (2) to the following table), each director and nominee for election as director and the other directors and officers as a group did not beneficially own in excess of 1% of any class of voting securities of the Corporation or any of its subsidiaries.

As of March 11, 1985, the only persons known to the directors or officers of the Corporation to be the beneficial owners of more than 5% of any class of its voting securities are as follows:

Title of class	Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Ordinary Shares	Caisse de dépôt et placement du Québec, 1981, avenue McGill College, Montréal, Québec H3A 3C7	7,109,400 shares Has sole voting and investment powers	9.92
Ordinary Shares	Power Corporation of Canada, 759 Victoria Square, Montreal, Quebec H2Y 2K4	8,223,284 shares See footnote (1)	11.48
Preference Shares	Alexander Centre Industries Limited, (a privately owned company), Sudbury, Ontario	568,553 Sterling shares 2,693,990 Canadian Dollar shares See footnote (2) page 3	69.25
Preference Shares	Phenix Flour Limited, (a wholly-owned indirect subsidiary of Canadian Pacific Enterprises Limited of Calgary, Alberta), 3800 Notre Dame St. East, Montreal, Quebec H1W 2J8	11,000 Sterling shares 275,125 Canadian Dollar shares Has sole voting and investment powers	6.07

Footnotes

(1) At March 11, 1985 Power Corporation of Canada (Power) owned directly 3,368,200 Ordinary Shares, or 4.70% of the class, as to which it is deemed to have sole voting and investment powers and of which it is deemed to be the beneficial owner under regulations of the United States Securities and Exchange Commission. At the same date, Power controlled or had substantial interests in companies which owned or held or controlled 615,800 Ordinary Shares, or 0.86% of the class, as to which Power is deemed under such regulations to have sole voting and investment powers and of which it is deemed to be the beneficial owner, and 4,239,284 Ordinary Shares, or 5.92% of the class, as to which Power is deemed to share voting and investment powers and of which it is also deemed to be the beneficial owner. At the same date, companies which Power controlled or in which it had substantial interests also owned or held or controlled shares in subsidiaries of the Corporation, as to which Power is deemed to share (except where otherwise indicated) voting and investment powers and of which it is deemed to be the beneficial owner, as follows:

Canadian Pacific Limited subsidiary	Common shares	Percent of class
Canadian Pacific Enterprises Limited	*1,623,746	1.05
The Algoma Steel Corporation, Limited	1,470,183	10.22
AMCA International Limited	1,214,702	3.66
Cominco Ltd.	3,041,895	4.73
Pine Point Mines Limited	105,385	2.33
Vestgron Mines Limited	95,522	2.26
Great Lakes Forest Products Limited	156,125	3.22
Corporate Foods Limited	51,000	1.63
Eastern Bakeries Limited	5,420	0.49
PanCanadian Petroleum Limited	875,100	0.70
Steep Rock Resources Inc.	355	—

*(includes 45,000 shares, or 0.03% of the class, as to which Power is deemed to have sole voting and investment powers)

Principal Holders of Voting Securities (continued)

Except for the 3,368,200 shares of the Corporation owned directly by Power, the boards of directors of the companies which Power controls or in which it has substantial interests, and which are The Investors Group, The Great-West Life Assurance Company, Montreal Trustco Inc., Consolidated-Bathurst Inc., Gesca Ltée, and their respective subsidiaries and pension funds, in fact exercise sole voting and investment powers with respect to the shares of the Corporation and its subsidiaries owned or held or controlled by them, and Power disclaims beneficial ownership of any shares not owned by it directly.

Mr. Paul Desmarais, O.C., a director of the Corporation, is Chairman and Chief Executive Officer and controlling stockholder of Power, and is deemed under regulations of the United States Securities and Exchange Commission to be the beneficial owner of all shares of the Corporation and its subsidiaries of which Power is deemed to be the beneficial owner; Mr. Desmarais disclaims beneficial ownership of any shares not owned by Power directly. Mr. James W. Burns, also a director of the Corporation, is President and a director of Power and may also be deemed under the same regulations to be the beneficial owner of all the shares of the Corporation and its subsidiaries of which Power is deemed to be the beneficial owner; Mr. Burns disclaims beneficial ownership of any such shares.

An agreement dated December 15, 1981 between the Corporation, Power and Mr. Desmarais limits to 15% the voting shares of the Corporation that may be held by the Power group of companies and Mr. Desmarais. Under the agreement, the Power group will vote its beneficially owned shares of the Corporation in accordance with the recommendations of the Board of Directors of the Corporation, except in certain circumstances which do not cover the matters identified in the foregoing Notice to Shareholders. The agreement extends until December 31, 1991, subject to early termination options which arise in certain situations. The agreement allows Power to increase its holdings beyond the 15% only if a take-over bid is made for the Corporation or if another shareholder acquires more than 10% of the voting shares of the Corporation. In the case of another shareholder acquiring more than 10%, Power's increased holdings together with those of other members of the Power group are limited to 5% more than the holdings of such other shareholder. Mr. Desmarais and Mr. Burns were nominated as directors of the Corporation in 1982 and 1983, respectively, pursuant to that agreement.

(2) Alexander Centre Industries Limited (Alexander) also owns 184,822 Ordinary Shares. Management has been informed that more than 50% of the voting securities of Alexander is owned by Mr. Clifford A. Fielding, Sudbury, Ontario, a director of the Corporation, and that the balance of the voting securities of Alexander is owned by his spouse, Mrs. Lily Fielding and trusts established for his six grandchildren. In addition to the Ordinary Shares and the Preference Shares owned by Alexander, management has been informed that Mr. Fielding's spouse, Mrs. Lily Fielding; his son Malcolm James Fielding and his spouse, Shirley Anne Fielding; his daughter, Brenda Elaine Wallace and her spouse, James Duncan Wallace; his six grandchildren and trusts established for them; and three bodies corporate which are, Waters Holding Corporation Limited, Alexander Transport Limited and Northern Ski Company Limited, the shares of which are owned by Mr. Fielding and/or members of his family, own an aggregate of 526,395 Ordinary Shares, 257,435 Canadian Dollar Preference Shares and 73,012 Sterling Preference Shares.

Election of Directors

The terms of the following six directors will expire at the forthcoming Annual Meeting of Shareholders: A.S. Kingsmill, Q.C., Donald C. Matthews, Stanley A. Milner, The Rt. Hon. Lord Polwarth, T.D., D.L., Claude Pratte, Q.C. and W.W. Stinson. At that time, A.M. Runciman, O.C. will retire, having attained the age limit for directors as prescribed in By-law No. 1 (the General By-law), thus creating a vacancy on the Board.

The Board of Directors consists of a minimum of three and a maximum of 24 directors. The number of directors is 23 as fixed by the directors in accordance with the General By-law. Under the General By-law, which came into effect upon the Corporation's continuance under the CBCA in 1984, each director is to be elected to hold office for a term commencing at the close of the annual meeting of shareholders at which he is elected and ending at the close of the third annual meeting of shareholders following his election. To effect the transition from the previous cycle of four years to a cycle of three years, the General By-law provides that, of the directors to be elected at the first annual meeting following continuance, at least one-third shall be elected for a term expiring at the close of the third annual meeting of shareholders following their election, at least one-third for a term expiring at the close of the second such annual meeting, and the remainder for a term expiring at the close of the first such annual meeting. Therefore, the following nominations will be made: Messrs. Kingsmill, Milner and Pratte will be nominated for re-election for a term of three years; Mr. Matthews and Mr. Stinson for a term of two years; Mr. C. Douglas Reekie as a replacement for Mr. Runciman will be nominated for election as a director for a term of two years; and Lord Polwarth will be nominated for re-election for a term of one year. The management does not contemplate that any of the nominees

Election of Directors (continued)

will be unable to serve as directors but, if that should occur for any reason prior to the meeting, the persons named in the enclosed form of proxy intend to vote for another nominee selected by management.

Information as of March 11, 1985 as to the aforementioned seven nominees and the directors continuing in office is as follows:

Name of director (For committee memberships and meeting attendance, see footnotes page 8)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Limited (CPL) Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries, beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see footnotes page 8) and major offices held in significant affiliates (†CPL subsidiaries)
Director nominated for re-election for one year term				
*The Rt. Hon. Lord Polwarth, T.D., D.L.	Director, Bank of Scotland, Edinburgh, Scotland.	May 7, 1986 1975 68	2,000 Nil	Director of [1] Halliburton Company
Nominee for election as director for two year term				
C. Douglas Reekie	President and Chief Executive Officer, CAE Industries Ltd., Toronto, a holding and management company.	May 6, 1987 60	2,000 1,383 C.P. Enterprises Limited Common Shares 2,000 Cominco Ltd. $2.00 Tax Deferred Exchangeable Preferred Shares Series A 1,500 PanCanadian Petroleum Limited Common Shares	Director of [1] †C.P. Enterprises Limited [1] †AMCA International Limited †Marathon Realty Company Limited
Directors nominated for re-election for two year term				
Donald C. Matthews	President and General Manager, Highland Stock Farms Ltd., Calgary, cattle breeding.	May 6, 1987 1975 66	2,000 100 CPL Ordinary Shares £1,378 CPL Perpetual 4% Consolidated Debenture Stock (owned by Mr. Matthews' spouse, as to all of which he disclaims beneficial ownership) 750 Cominco Ltd. Common Shares (includes 600 shares owned by Highland Stock Farms Ltd.)	Nil
W.W. Stinson ① ③	President, Canadian Pacific Limited, Montreal.	May 6, 1987 1981 51	2,000 1,630 CPL Ordinary Shares 837 C.P. Enterprises Limited Common Shares 300 Cominco Ltd. Common Shares 100 Great Lakes Forest Products Limited Common Shares 100 PanCanadian Petroleum Limited Common Shares	Director of [1] †C.P. Enterprises Limited †Cominco Ltd. †Great Lakes Forest Products Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited [1] †Soo Line Corporation
Directors nominated for re-election for three year term				
A.S. Kingsmill, Q.C.	Partner, Law firm of Tilley, Carson & Findlay, Toronto.	May 4, 1988 1984 57	2,000 2,398 C.P. Enterprises Limited Common Shares 100 AMCA International Limited Common Shares	Partner of [3] [4] Tilley, Carson & Findlay

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see footnotes page 8)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Limited (CPL) Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries, beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see footnotes page 8) and major offices held in significant affiliates (†CPL subsidiaries)
Director nominated for re-election for three year term (continued)				
Stanley A. Milner	President and Chief Executive Officer, Chieftain Development Co. Ltd., Edmonton, engaged in petroleum and natural gas exploration and development.	May 4, 1988 1980 56	2,000 7,000 CPL Ordinary Shares	Director [1] Banister Continental Ltd. Director, President and Chief Executive Officer of [1] Chieftain Development Co. Ltd.
Claude Pratte, Q.C. ① ② ③	Partner, Law firm of Stein, Monast, Pratte & Marseille, Quebec.	May 4, 1988 1970 60	2,000 11,167 CPL Ordinary Shares 110,000 C.P. Enterprises Limited Common Shares 323 The Algoma Steel Corporation, Limited Common Shares 330 AMCA International Limited Common Shares	Partner of [3] Stein, Monast, Pratte & Marseille Director of †CIP Inc.
Directors continuing in office after the meeting				
Lloyd I. Barber, O.C., Ph.D.	President, University of Regina, Regina.	May 7, 1986 1983 53	2,000 Nil	Director of [1] The Bank of Nova Scotia [1] Husky Oil Ltd.
F.S. Burbidge ① ③	Chairman and Chief Executive Officer, Canadian Pacific Limited, Montreal.	May 4, 1988 1971 66	2,000 4,665 CPL Ordinary Shares 4,783 C.P. Enterprises Limited Common Shares 630 Cominco Ltd. Common Shares 500 AMCA International Limited Common Shares 400 PanCanadian Petroleum Limited Common Shares	Director of [1] †C.P. Enterprises Limited [1] †AMCA International Limited †Cominco Ltd. †Marathon Realty Company Limited †PanCanadian Petroleum Limited [1] †Soo Line Corporation
James W. Burns	President, Power Corporation of Canada, Montreal, a holding and management corporation.	May 6, 1987 1983 55	2,000 (For list of voting securities that may be deemed to be beneficially owned by Mr. Burns, see footnote (1) page 2)	Director of [1] Genstar Corporation
Robert W. Campbell ① ③	Chairman and Chief Executive Officer, Canadian Pacific Enterprises Limited, Calgary, (CPL subsidiary) a diversified international business enterprise.	May 7, 1986 1982 62	2,000 505 C.P. Enterprises Limited Common Shares 101 The Algoma Steel Corporation, Limited Common Shares 250 AMCA International Limited Common Shares 330 Cominco Ltd. Common Shares 100 Great Lakes Forest Products Limited Common Shares 13,760 PanCanadian Petroleum Limited Common Shares	Director, Chairman and Chief Executive Officer of [1] †C.P. Enterprises Limited Chairman of the Board and Director †PanCanadian Petroleum Limited Director of †The Algoma Steel Corporation, Limited [1] †AMCA International Limited †Cominco Ltd. †Great Lakes Forest Products Limited [1] Westinghouse Electric Corporation

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see footnotes page 8)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Limited (CPL) Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries, beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see footnotes page 8) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office after the meeting (continued)				
Paul Desmarais, O.C. ① ③	Chairman and Chief Executive Officer, Power Corporation of Canada, Montreal, a holding and management corporation.	May 7, 1986 1982 58	2,000 1,000 C.P. Enterprises Limited Common Shares (For list of voting securities deemed to be beneficially owned by Mr. Desmarais, see footnote (1) page 2)	Director of $\boxed{1}$ †C.P. Enterprises Limited $\boxed{1}$ The Seagram Company Ltd.
C.A. Fielding	Honorary Chairman and Chief Executive Officer, Alexander Centre Industries Limited, Sudbury, Ontario, supplier of construction material and construction.	May 4, 1988 1984(**) 69	2,000 12,000 CPL Ordinary Shares 11,500 CPL Canadian Dollar Preference Shares 3,000 CPL Sterling Preference Shares (For list of voting securities deemed to be beneficially owned by Mr. Fielding, see footnote (2) page 3)	Nil
*Allard Jiskoot	Director and Former Chairman of the Board, Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands, bankers.	May 6, 1987 1964 66	2,000 3,000 CPL Ordinary Shares	Director of $\boxed{1}$ N.V. Philips Glowlamps
W. Earle McLaughlin, O.C. ① ③ ④	Director and Former Chairman of the Board, The Royal Bank of Canada, Montreal.	May 6, 1987 1965 69	2,000 3,000 CPL Ordinary Shares 19,864 C.P. Enterprises Limited Common Shares 245 The Algoma Steel Corporation, Limited Common Shares 1,000 The Algoma Steel Corporation, Limited $2 Cumulative Redeemable Convertible Class B Preference Shares Series 1 500 AMCA International Limited Common Shares	Director of $\boxed{1}$ †C.P. Enterprises Limited †The Algoma Steel Corporation, Limited $\boxed{1}$ General Motors Corporation $\boxed{1}$ Genstar Corporation $\boxed{1}$ Nabisco Brands, Inc.
J.H. Moore ②	Corporate director, Former Chairman of the Board, John Labatt Limited, London, Ontario, investment holding company.	May 6, 1987 1972 69	2,000 1,700 CPL Ordinary Shares 4,400 C.P. Enterprises Limited Common Shares 3,600 PanCanadian Petroleum Limited Common Shares (except for 3,000 C.P. Enterprises Limited Common Shares, all other shares reported above are owned by trusts for the benefit of Mr. Moore's sister of which he is a trustee, as to all of which he disclaims beneficial ownership)	Director of $\boxed{1}$ Bell Canada Enterprises Inc. $\boxed{1}$ Bell Canada $\boxed{1}$ Northern Telecom Limited
William D. Mulholland	Chairman and Chief Executive Officer, Bank of Montreal, Toronto.	May 4, 1988 1983 58	2,000 1,000 CPL Ordinary Shares	Director of $\boxed{1}$ The Upjohn Company $\boxed{1}$ Harris Bankcorp. Inc.

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see footnotes page 8)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	Canadian Pacific Limited (CPL) Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries, beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the U.S. Securities and Exchange Commission (see footnotes page 8) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office after the meeting (continued)				
*Paul L. Paré, O.C. ① ③	Chairman and Chief Executive Officer, Imasco Limited, Montreal, a parent operating company with tobacco, food services and retail divisions.	May 7, 1986 1973 62	2,000 4,000 C.P. Enterprises Limited Common Shares	Director of [1] †C.P. Enterprises Limited †CIP Inc. [2] Canadian Fund Inc.
Lucien G. Rolland, O.C. ② ④	Chairman and Chief Executive Officer, Rolland inc., Montreal, manufacturer and distributor of fine papers.	May 7, 1986 1962 68	2,000 3,200 CPL Ordinary Shares (includes 200 shares owned by Mr. Rolland's spouse, as to all of which he disclaims beneficial ownership) 25 C.P. Enterprises Limited Common Shares	Director of [1] Bell Canada Enterprises Inc. [1] Inco Limited [2] Canadian Fund Inc.
Thomas G. Rust ④	Chairman of the Board, Crown Forest Industries Limited, Vancouver, engaged in the manufacture, sale and worldwide distribution of pulp, paper, newsprint, lumber, plywood and other products.	May 7, 1986 1977 65	2,000 Nil	Director of [1] The Bank of Nova Scotia
F.H. Sherman	Chairman and Chief Executive Officer, Dofasco Inc., Hamilton, basic steel producer — engaged in production of hot rolled steels, skelp, plate, tin plate, cold rolled, galvanized and electrical steels, steel castings, pig iron.	May 6, 1987 1973 68	2,000 364,000 AMCA International Limited Common Shares (144,000 shares are owned by Dofasco Supplementary Retirement Savings Plan of which he is one of five trustees and 220,000 shares are owned by Dofasco Employees' Savings and Profit Sharing Fund of which he is one of four trustees, as to all of which he disclaims beneficial ownership)	Director of [1] The Bank of Nova Scotia
Jean Casselman Wadds, O.C.	Commissioner, Royal Commission on the Economic Union and Development Prospects for Canada, Ottawa.	May 4, 1988 1984 64	2,000 Nil	Director of [1] Bell Canada
Ray D. Wolfe, C.M. ① ③	Chairman and Chief Executive Officer, The Oshawa Group Limited, Toronto, engaged in the merchandising of food, non-food and drugs.	May 4, 1988 1972 67	2,000 5,911 CPL Ordinary Shares (includes 1,500 shares owned by a Canadian registered charitable foundation of which Mr. Wolfe is a director, as to all of which he disclaims beneficial ownership) 10,000 C.P. Enterprises Limited Common Shares	Director of [1] †C.P. Enterprises Limited [1] The Bank of Nova Scotia

Footnotes on page 8

Election of Directors (continued)

Footnotes

Committee members are identified in the above column as follows	Committee	Number of meetings in 1984
①	Executive	14
②	Audit	4
③	Nominating	2
④	Compensation	1
	Board of Directors	12

*attended fewer than 75% of Board and committee meetings on which he served

All directors have been associated with the firm, corporation or institution shown in the foregoing table during the past five years except Robert W. Campbell, who became Vice-Chairman of Canadian Pacific Enterprises Limited on February 5, 1982, Vice-Chairman and Chief Executive Officer on April 29, 1982 and Chairman and Chief Executive Officer on April 27, 1984 and, for more than 5 years prior thereto, was Chairman and Chief Executive Officer of PanCanadian Petroleum Limited, a subsidiary of the Corporation.

F.S. Burbidge was President of Canadian Pacific Limited from May 3, 1972 to May 5, 1981; William D. Mulholland was President and Chief Executive Officer of the Bank of Montreal from January 1979 to the end of June 1981; Lucien G. Rolland was Chairman, President and Chief Executive Officer of Rolland inc. from June 20, 1984 to February 6, 1985; Thomas G. Rust was Chairman of the Board, President and Chief Executive Officer of Crown Forest Industries Limited (formerly Crown Zellerbach Canada Limited) from September 1982 to February 1984; F.H. Sherman was President and Chief Executive Officer of Dofasco Inc. (formerly Dominion Foundries and Steel Limited) and Chief Executive Officer in 1982; Jean Casselman Wadds was High Commissioner for Canada to the United Kingdom from November 1979 to February 1983; Ray D. Wolfe was Chairman of the Board, President and Chief Executive Officer of The Oshawa Group Limited from 1977 until October 1983.

(**) C.A. Fielding was a director of the Corporation from April 1970 to October 1971.

[1] Subject to requirements of Sections 12 or 15 (d) of the United States Securities Exchange Act of 1934.

[2] Registered as an investment company under the United States Investment Company Act of 1940.

[3] Law firm which CPL has retained in the last full fiscal year.

[4] To which CPL and subsidiaries paid for property or services in 1984 in excess of 5% of the consolidated gross revenues of payee firm or corporation (for additional information, see section entitled Certain Transactions, page 13)

Pursuant to Securities and Exchange Commission regulations, a brief description of the functions of the Audit, Nominating and Compensation Committees of the Board of Directors is given below.

Audit Committee

The Audit Committee reviews the financial statements of the Corporation before they are submitted to the Board of Directors for approval. The Audit Committee discusses with the independent auditors the scope of their examination, monitors progress of the independent audit and ensures the adequacy of accounting controls. The Audit Committee recommends to the Board the name of the independent auditors of the Corporation and the audit fees to be paid annually. The Audit Committee also reviews the scope and results of the Corporation's internal audit function.

Nominating Committee

In the event of a vacancy occurring on the Board of Directors or on a Committee of the Board, however caused, the Nominating Committee recommends to the Board a person or persons to fill any such vacancy. The Nominating Committee also considers and recommends to the Board the slate of directors to be nominated for election at any Annual Meeting of Shareholders. The Committee will consider nominees recommended by shareholders and such recommendations may be forwarded to the Secretary at the address shown for the registered office of the Corporation appearing on page 1 of this Proxy Statement.

Compensation Committee

The Compensation Committee considers and recommends to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the Committee monitors benefits under compensation or other such plans and deals with other matters as directed by the Board from time to time.

Exchange

All dollar amounts recorded herein are expressed in Canadian dollars. The exchange rate between the Canadian dollar and the U.S. dollar is not fixed. During 1984, The Bank of Canada noon rate ranged between $1.2450 Canadian equals $1 U.S. and $1.3347 Canadian equals $1 U.S., and averaged $1.2948 Canadian equals $1 U.S.

Executive Compensation

The following table shows all cash compensation paid in 1984 or to be paid in respect of the year 1984 by the Corporation and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of the Corporation and certain subsidiaries, as to whom the total compensation required to be disclosed herein by the U.S. Securities and Exchange Commission rules exceeded $60,000 and to all executive officers as a group.

Name of individual or number in group	Capacities in which served	Cash compensation			
		Canadian Pacific Limited	Canadian Pacific Enterprises Limited	Other subsidiaries	Total
F.S. Burbidge	As an executive officer of the Corporation and as a director of certain subsidiaries	$ 528,987	$ 19,000	$ 47,184	$ 595,171
W.W. Stinson	As an executive officer of the Corporation and as a director of certain subsidiaries	331,464	11,500	36,687	379,651
R.S. Allison	As an executive officer of the Corporation and as a director of certain subsidiaries	213,530	—	17,975	231,505
D.S. Maxwell, Q.C.	As an executive officer of the Corporation and as a director of a subsidiary	188,408	—	14,300	202,708
R.W. Campbell	As an executive officer of a subsidiary and as a director of the Corporation and certain subsidiaries	33,600	484,050	59,834	577,484
All executive officers as a group (including the five above named: 27)	As executive officers and as executive officers and directors	$3,962,643	$514,550	$192,000	$4,669,193

The aggregate amount of other compensation received by all executive officers as a group did not exceed $125,000.

The following table shows, for various salary levels, the personal income taxes and resulting after tax salary in 1984 for a Quebec resident who is married and has no other dependants.

Gross salary	Federal and provincial taxes	After tax salary
$595,000	$345,113	$249,887
575,000	333,033	241,967
470,000	269,613	200,387
380,000	215,253	164,747
230,000	124,653	105,347
200,000	106,533	93,467
175,000	91,433	83,567
150,000	76,333	73,667
125,000	61,233	63,767
100,000	46,133	53,867

Variable Compensation Payments Plans

Executive officers of the Corporation participate in a Variable Compensation Payments Plan, pursuant to which the Compensation Committee of the Board of Directors fixes, annually, a performance objective for each participant based upon the appropriate annual profit plan. The Committee also fixes, for each participant, a target payment level, ranging from 10% to 30% of annual base salary, which may be paid if the performance objective is met. In an exceptional year, target payment levels may be augmented by amounts up to 50% of the level originally fixed. Awards are paid in cash as soon as possible following the end of the year. No payments were made under the Plan in respect of 1984.

Under the Variable Compensation Payments Plan of Canadian Pacific Enterprises Limited (CPEL), a subsidiary of the Corporation, the Compensation Committee of CPEL's Board of Directors fixes, annually, an amount which designated executives may receive as additional compensation. This amount ranges generally from 12½% to 30% of annual base salary. The award entitlement in each year, payable in cash in the subsequent year, is based on CPEL's planned net income being attained. If the planned net income is exceeded, the payments may be increased by an amount up to 50% of the original percentage fixed. Mr. R.W. Campbell, a director of the Corporation and an officer of CPEL, is entitled to receive a payment under that Plan in 1985 for 1984 and the amount is included in the preceding compensation table.

Compensation of Directors

For the calendar year 1984 the Board authorized for each director other than those directors who are salaried officers of the Corporation the same compensation paid in 1982 and 1983 comprising a basic retainer of $10,000 for each director, an additional retainer of $5,000 for each member of the Executive Committee, an additional retainer of $1,000 for the Chairman of the Audit Committee, a fee of $600 for each director for each meeting of the Board attended and a fee of $600 for each member for each meeting of the Executive, Audit, Compensation, Nominating, Pension Trust Fund and Management Resources Committees attended.

Pension Plan

The Corporation maintains a contributory, defined benefit pension plan pursuant to which pensions are paid to eligible officers and employees of the Corporation at retirement. Under the plan, pensions are paid at the normal retirement age of 65, based upon pensionable earnings (wages or salary) and credited years of service up to a maximum of 35 as follows:

Pension Table

Estimated annual pension income payable at retirement
(See footnote (2) for pensionable earnings and credited years of service of named executive officers)

Best consecutive or final five-year average pensionable earnings	Credited years of service				
	15	20	25	30	35
$150,000	$ 43,244	$ 57,776	$ 72,776	$ 87,776	$102,776
200,000	58,244	77,776	97,776	117,776	137,776
250,000	73,244	97,776	122,776	147,776	172,776
300,000	88,244	117,776	147,776	177,776	207,776
350,000	103,244	137,776	172,776	207,776	242,776
400,000	118,244	157,776	197,776	237,776	277,776
450,000	133,244	177,776	222,776	267,776	312,776

Footnotes on page 11

Footnotes

(1) Benefits arising from the pension plan are based on pensionable salary only and not on any fees, directors' fees, commissions, bonuses, or salary beyond normal retirement.

(2) Pensionable earnings during 1984 and credited years of service at the end of 1984 for executive officers named in the compensation table were as follows: Mr. Stinson $306,075 and 31 5/12 years and Mr. Allison $195,900 and 35 years. Mr. Burbidge's pension was fixed at $209,898.48 per year upon his reaching normal retirement age in 1983. Messrs. Campbell and Maxwell do not participate in the Corporation's Pension Plan (see the second paragraph following these footnotes).

(3) The amount of the contribution, payment or accrual made by the Corporation for the year 1984 for officers, individually or as a group, is not and cannot readily be separately or individually calculated by the Corporation's actuaries.

(4) Benefit amounts listed in the above pension table are payable during the lifetime of the pensioner and, at a reduced level, during the lifetime of the surviving spouse and are not subject to any deduction for Canada Pension Plan or Quebec Pension Plan income.

Officers and certain management and supervisory employees who defer their retirement beyond age 65 at the request of the Corporation will be paid monthly by the Corporation, upon retirement, a supplementary allowance of 1% of his or her monthly basic pension entitlement multiplied by the number of months such employee defers his or her retirement beyond age 65. Two persons among the above group of 27 executive officers accrued a supplementary allowance under this policy during 1984. As of December 31, 1984, Mr. Burbidge had accrued a supplementary allowance based on 15 months of service beyond normal retirement age and another officer included in the group but not named in the compensation table had accrued a supplementary allowance based on 6 months of service beyond normal retirement age.

Pursuant to an agreement with Canadian Pacific Enterprises Limited, Mr. Campbell is to receive from it, after retirement, a total monthly payment equal to 66⅔% of his average monthly salary during the five years immediately preceding his retirement less any benefits received from the PanCanadian Petroleum pension plan and the pension plan of a previous employer. The compensation and retirement benefits of Mr. Maxwell and one other officer included in the group but not named in the compensation table are governed by individual employment contracts of indefinite duration pursuant to which their compensation is determined from time to time by corporate policy. The retirement income to be paid by the Corporation at age 65 to Mr. Maxwell is fixed at 27.3% of his then current compensation. The other officer was covered by an individual pension arrangement under which he accrued retirement benefits equal to 3½% of his final 5-year average salary for each year of service, up to his normal retirement date, less any benefits received from his own contributions to a registered retirement savings plan. As of December 31, 1984, he has accrued a supplementary allowance based on one month of service beyond normal retirement age and calculated on the same basis as the 1% policy referred to in the previous paragraph.

Certain executive officers of the Corporation retiring at or after normal retirement age on or before July 1, 1989 will receive a smaller pension under the pension plan than they would have received had certain planned salary increases for 1983 and 1984 been implemented. Those salary increases, which were designed to bring these officers up to or closer to the authorized salary levels of their respective positions, were restrained by virtue of the *Public Sector Compensation Restraint Act.* Since pensionable earnings under the plan are generally determined on the basis of compensation during the five years immediately preceding retirement, smaller pensions will be payable to those officers whose pensionable earnings are based in part on the years 1983 and 1984. The eight executive officers so affected will be entitled to receive as a supplemental benefit from the Corporation an amount equal to the difference between the pension payable under the plan and the pension that would have been payable had salary increases not been restrained. Entitlement to this supplemental benefit is conditional upon retirement on or after normal retirement age. It is anticipated that the aggregate amount payable as a supplemental benefit to all eight executive officers will not exceed $19,000 per annum.

Executive Compensation (continued)

The following statement shows the directors' and officers' remuneration paid in 1984 by the Corporation and its subsidiaries as required by the Canada Business Corporations Regulations.

	Nature of remuneration earned					
	Directors' fees	Salaries	Bonuses	Non-accountable expense allowance	Other	Total
Remuneration of directors						
Number of directors 26						
Body corporate incurring the expense:						
Canadian Pacific Limited	$435,767					$ 435,767
Canadian Pacific Enterprises Limited	119,931					119,931
Marathon Realty Company Limited	5,550					5,550
Cominco Ltd.	35,768					35,768
The Algoma Steel Corporation, Limited	26,400					26,400
Canadian Pacific Steamships, Limited	8,100					8,100
Pacific Forest Products Limited	1,475					1,475
Great Lakes Forest Products Limited	15,166					15,166
CIP Inc.	27,400					27,400
PanCanadian Petroleum Limited	33,305					33,305
Canadian Pacific Securities Limited	1,175					1,175
AMCA International Limited	34,250					34,250
AMCA International Corporation	15,990					15,990
Canadian Pacific Air Lines, Limited	16,209					16,209
Soo Line Corporation	31,200					31,200
Remuneration of officers						
Number of officers 33						
Body corporate incurring the expense:						
Canadian Pacific Limited		$4,350,471				4,350,471
Totals	$807,686	$4,350,471				$5,158,157

Directors and Officers Liability Insurance

On May 28, 1979, the Executive Committee of the Board of Directors approved the purchase of directors and officers liability insurance on behalf of the Corporation's directors and officers. The approximate amount of premium paid by the Corporation in 1984 in respect of its directors as a group and in respect of its officers as a group was $1,370 and $1,150 respectively. The aggregate amount of premium paid by the directors and the officers of the Corporation in respect of the year 1984 was approximately $220 and $370 respectively. The policy provides coverage with a limit of $100 million in each policy year, subject to a deductible of $75,000 for each loss. The deductible is to be absorbed by the Corporation.

Certain Transactions

The Corporation and its subsidiaries, in the normal course of business, paid $527,980 to the firm of Tilley, Carson & Findlay, of which Mr. A.S. Kingsmill, Q.C., a director, is a partner, for legal services in the fiscal year ended December 31, 1984.

Relocation of employees

To assist employees affected by relocation, the Corporation makes mortgage loans available in amounts dependent upon the cost differential in housing in the locations involved, the purchase price of the new house and the salary of the employee. The Corporation believes that these loans were on terms that were fair to the Corporation.

Mr. D.C. Coleman, Vice-President Eastern Region received such a loan, in May 1981, for a term of 20 years which bears no interest for the first 10 years and interest at the lesser of 10% or the Bank of Montreal prime rate for the final 10 years. One-third of this loan is to be repaid in the first 10 years and the balance in the final 10 years. The largest aggregate amount outstanding during the period January 1, 1984 to March 11, 1985 was $66,000 and the amount outstanding at March 11, 1985 was $66,000.

Mr. J. Fox, Vice-President Engineering, Special Projects received a loan in 1982 for $59,000 under the same conditions as Mr. Coleman's. The largest aggregate amount outstanding during the period January 1, 1984 to March 11, 1985 was $59,000 and the amount outstanding at March 11, 1985 was $59,000.

Mr. D.E. Sloan, Treasurer, received a loan in 1977 for $66,000 for a term of 15 years. No payments were to be made during the first four years. During the remaining eleven years payments are to be made in equal monthly installments. No interest is charged. The largest aggregate amount outstanding during the period January 1, 1984 to March 11, 1985 was $50,424 and the amount outstanding at March 11, 1985 was $43,464.

Mr. D.G. MacDonald, Assistant Treasurer, received a loan in 1977 for $26,000 under the same conditions as Mr. Sloan's. The largest aggregate amount outstanding during the period January 1, 1984 to March 11, 1985 was $21,273 and the amount outstanding at March 11, 1985 was $18,445.

Auditors

There will be submitted to the Annual Meeting of Shareholders a resolution appointing Price Waterhouse to the office of auditors of the Corporation for a term expiring at the close of the next annual meeting of shareholders, to be held in 1986. Representatives of Price Waterhouse will be present at the meeting with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Amendments to the Articles of the Corporation

The special business to be submitted to the shareholders at the Annual Meeting concerns proposed amendments to the Corporation's articles of continuance. In accordance with a resolution adopted by the Board of Directors on February 11, 1985, the Corporation has notified the holders of its 7¼% Cumulative Redeemable Preferred Shares, Series A that it intends to redeem all such shares on March 28, 1985. Accordingly, holders of shares of that series will not be affected by the proposed amendments described below.

Subdivision of Shares

Shareholders will be asked to vote upon a special resolution to amend the articles of continuance of the Corporation to subdivide its Ordinary Shares and its Preference Shares at the close of business of the registered office of the Corporation on May 17, 1985 on a three-for-one basis. At the present time, there are issued and outstanding 71,662,280 Ordinary Shares and a total of 4,711,320 Preference Shares. Management believes that the subdivision will increase the market for and the distribution of the Corporation's shares. If the special resolution is approved, the subdivision will become effective, after a certificate of amendment is issued, at the close of business on May 17, 1985. When the subdivision becomes effective, each certificate representing Ordinary Shares and Preference Shares will continue to represent the same number of shares, and the Corporation will, as soon as practicable thereafter, send to each holder of Ordinary Shares and each holder of Preference Shares additional certificates representing twice the number of shares previously held. Outstanding Ordinary and Preference Share certificates need not be sent to the Corporation or its transfer agents and may be retained by the holders thereof.

Subdivision of Shares (continued)

Under the articles, the voting rights attached to each Preference Share are the same as are given by an Ordinary Share. The proposed subdivision would not change the proportionate voting rights as between these classes. Similarly, under the articles, the holders of Ordinary Shares are entitled to receive any dividend declared by the Corporation except dividends declared on another class or series of shares. This entitlement would not be affected by the proposed subdivision. The articles provide that dividends on the Preference Shares take priority over dividends on the Ordinary Shares for up to, but not exceeding 4% per annum, being $0.12 per Canadian Dollar Preference Share per annum and £0.04 per Sterling Preference Share per annum. Dividends on the Preference Shares are not cumulative and if for any period or periods the dividends on such Preference Shares are less than 4% per annum, being $0.12 Canadian Dollar Preference Share per annum or £0.04 per Sterling Preference Share per annum, the deficiency or any part of it is not to be made good afterwards. To maintain in respect of the subdivided shares the degree of preference that now exists respecting the payment of dividends, the special resolution to be submitted to shareholders also authorizes an amendment to the articles to reduce the maximum dividend payable on each Preference Share from $0.12 per Canadian Dollar Preference Share per annum and £0.04 per Sterling Preference Share per annum to one-third of those respective amounts.

Incidental to the subdivision of Ordinary and Preference Shares and upon its becoming effective, the special resolution also amends specified references in the articles. These references are to the former par or nominal values of $5 of ordinary stock and $3 and £1 of preference stock which under the special resolution would be changed to one-third of those respective amounts. These consequential amendments ensure that the subdivision makes no change to the shareholders' existing rights.

The Board of Directors considers it advantageous to the Corporation and its shareholders that the Ordinary and Preference Shares be subdivided on a three-for-one basis and that the consequential amendments referred to above be adopted, and unanimously recommends that shareholders vote for the special resolution.

To become effective, the special resolution, the full text of which appears as Schedule I to this Proxy Statement, must be passed by a majority of not less than two-thirds of the votes cast by the holders of the Ordinary Shares and Preference Shares present or represented at the Annual Meeting of Shareholders and voting together on the resolution. It must also be passed by a majority of not less than two-thirds of the votes cast by the holders of the Preference Shares present or represented and voting on the resolution separately as a class, because of the consequential change in their dividend.

Except as indicated above, the proposed subdivision and consequential amendments do not affect the rights of any other security holder.

Under the CBCA, a holder of Preference Shares who objects to this amendment to the articles may dissent and be paid the fair value of his or her shares in accordance with section 184. A holder of Preference Shares will not be entitled to object with respect to any shares which he or she votes in favour of the special resolution. Any holder of Preference Shares who wishes to exercise the rights afforded by section 184 should refer to that section, which appears as Schedule II to this Proxy Statement.

The following is a brief summary of section 184. A dissenting shareholder must send a written objection to the special resolution to the Corporation at or before the Annual Meeting of Shareholders. The filing of a written objection does not deprive a shareholder of his or her right to vote on the special resolution but a vote against the special resolution does not in itself constitute a written objection. A dissenting shareholder may only claim under section 184 with respect to all the Preference Shares held by him or her on behalf of any one beneficial owner and registered in the name of the dissenting shareholder. Within 10 days after the passing of the special resolution, the Corporation is required to notify each dissenting shareholder that the resolution has been adopted. The dissenting shareholder is then required within 20 days after receiving that notice, to send to the Corporation a written demand for payment of the fair value of the shares in respect of which he or she dissents and within 30 days thereafter to send the certificates representing his or her shares to the Corporation at its registered office or to its transfer agent. The Corporation is then required to send to each dissenting shareholder who has sent a demand for payment, an offer to pay for such shares in an amount considered by the directors to be the fair value thereof, accompanied by a statement showing how that value was determined. Each such offer must be on the same terms. If an offer to pay is not made or is not accepted, the Corporation or a dissenting shareholder may apply to a court to fix the fair value for the shares. The dissenting shareholder will be entitled to be paid the amount fixed by the court. All notices given pursuant to section 184 should be addressed to the Secretary at the address shown for the registered office of the Corporation on page 1 of this Proxy Statement. It is suggested that any holder of Preference Shares wishing to exercise the right of dissent should review carefully the provisions of section 184 in conjunction with a lawyer because failure to comply strictly with the statutory provisions may prejudice that right.

Change in Authorized Ordinary Shares

Shareholders will also be asked to vote upon a special resolution to amend the articles of continuance to change the maximum number of Ordinary Shares that the Corporation is authorized to issue to an unlimited number. At the present time, the Corporation is authorized to issue 100,000,000 Ordinary Shares, of which 71,662,280 have been issued and are outstanding. Although there are no present plans, arrangements or agreements to issue any Ordinary Shares, this change to the Corporation's articles would facilitate the raising of additional equity capital in the future as needs arise over the long term. As at present, no further shareholder action will be required for the issuance of additional Ordinary Shares and such issuances could result in dilution to existing shareholders. Holders of securities of the Corporation will not have any preemptive rights to subscribe for or purchase any of the additional Ordinary Shares. If the special resolution is approved by the shareholders, articles of amendment will be filed as soon as practicable thereafter.

The Board of Directors considers it advantageous to the Corporation and its shareholders that the Corporation be authorized to issue an unlimited number of Ordinary Shares and unanimously recommends that shareholders vote for the special resolution.

To become effective, the special resolution, the full text of which appears as Schedule III to this Proxy Statement, must be passed by a majority of not less than two-thirds of the votes cast by the holders of the Ordinary Shares and Preference Shares present or represented at the Annual Meeting of Shareholders and voting together on the resolution.

Shareholder Proposals

Any shareholder proposals to be included in the Proxy Statement to be issued in respect of the 1986 Annual Meeting of Shareholders must be received by the Secretary by January 30, 1986.

A COPY OF THE CORPORATION'S FORM 10K FILED WITH THE SECURITIES AND EXCHANGE COMMISSION WILL BE PROVIDED WITHOUT CHARGE ON WRITTEN APPLICATION TO THE SECRETARY AT THE ADDRESS SHOWN FOR THE REGISTERED OFFICE OF THE CORPORATION APPEARING ON PAGE 1 OF THIS PROXY STATEMENT.

The contents and the sending of this Proxy Statement have been approved by the directors of the Corporation.

D.J. Deegan,
Secretary.
Montreal, March 11th, 1985.

SCHEDULE I

Canadian Pacific Limited

Special Resolution of Shareholders

RESOLVED as a special resolution that:

1. The articles of continuance of the Corporation be amended to subdivide the issued and unissued Ordinary Shares and Preference Shares at the close of business of the registered office of the Corporation on May 17, 1985 on a three-for-one basis.

2. The following additional amendments consequential to the subdivision of shares be made to the articles to come into effect upon the subdivision becoming effective:

   (i) the maximum dividend payable on each Preference Share be reduced from $0.12 per Canadian Dollar Preference Share per annum and £0.04 per Sterling Preference Share per annum to $0.04 and £0.01 ⅓ per annum, respectively, so that paragraph 2.c) of Schedule A to the said articles shall be amended to read as follows:

   > "c) As to dividends the Preference Shares shall take priority over Ordinary Shares up to, but not exceeding 4% per annum, being $0.04 per Canadian Dollar Preference Share per annum and £0.01 ⅓ per Sterling Preference Share per annum, and shall not receive at any time a dividend at a higher rate than 4% per annum or in excess of these amounts. Dividends on the Preference Shares shall not be cumulative and if for any period or periods the dividends on such Preference Shares be less than 4% per annum, being $0.04 per Canadian Dollar Preference Share per annum or £0.01 ⅓ per Sterling Preference Share per annum, the deficiency or any part of it shall not be made good afterwards. A holder of a fraction of a Preference Share is entitled to receive a dividend in respect of that fraction.";

   (ii) the references in paragraph 2) appearing under the heading "SHARES" in Schedule A to the said articles to $5 of ordinary stock and to $3 and to £1 of preference stock be changed to $1.66 ⅔ of ordinary stock and to $1 and to £0.33 ⅓ of preference stock, respectively, so that the said paragraph shall be amended to read as follows:

   > "2) a number of Preference Shares without nominal or par value such that the amount of preference stock outstanding may equal but shall not exceed at any time ½ the aggregate amount of the ordinary stock then outstanding and that the authorized capital of the Corporation shall be decreased by the preference stock of the Corporation surrendered in consideration of preferred shares of the Corporation and cancelled prior to its continuance under the Canada Business Corporations Act, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be the equivalent of $1 and £0.33 ⅓ respectively of preference stock and each Ordinary Share being deemed to be the equivalent of $1.66 ⅔ of ordinary stock,";

   (iii) the references in paragraph 2.e) of Schedule A to the said articles to $3 of such preference stock and to £1 of such preference stock be changed to $1 and to £0.33 ⅓ of such preference stock, respectively, so that the said paragraph be amended to read as follows:

   > "e) The rights of the holders of the Preference Shares on dissolution shall be determined on the basis of the provisions applicable to the preference stock of the Corporation immediately preceding its continuance under the Canada Business Corporations Act and in accordance with the provisions applicable to the other classes of shares of the Corporation and for that purpose each Canadian Dollar Preference Share shall be deemed to be $1 of such preference stock and each Sterling Preference Share shall be deemed to be £0.33 ⅓ of such preference stock and the provisions applicable to the Ordinary Shares and the Preferred Shares shall be deemed to be those applicable to the ordinary stock and the preferred shares respectively of the Corporation immediately preceding such continuance.";

Special Resolution of Shareholders (continued)

(iv) the references in section 6 of Schedule C to the said articles to \$3 and £1 of preference stock be changed to \$1 and £0.33 ⅓ of preference stock, so that the said section shall be amended to read as follows:

> "6. The Corporation may at any time and from time to time on such terms and conditions as the directors of the Corporation may from time to time prescribe issue any of the Preferred Shares of the Corporation in consideration of the surrender of any Preference Shares of the Corporation, provided that what would be the par value of any such Preferred Shares so issued if each of them were a preferred share having a par value of \$10 shall not exceed what would be the par value of the Preference Shares so surrendered, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be \$1 and £0.33 ⅓ respectively of preference stock. Any Preference Shares so surrendered shall be cancelled and the authorized and issued capital of the Corporation shall be thereby decreased.";

(v) the references in section 8 of Schedule C to the said articles to \$3 and £1 of preference stock be changed to \$1 and £0.33 ⅓ of preference stock, so that the said section shall be amended to read as follows:

> "8. Except to the extent otherwise required by the Canada Business Corporations Act, Preference Shares and Preferred Shares shall be issued in accordance with the provisions applicable to the preference stock and preferred shares respectively of the Corporation immediately preceding its continuance under the Canada Business Corporations Act and for such purpose each Canadian Dollar Preference Share shall be deemed to be \$1 of such preference stock, each Sterling Preference Share shall be deemed to be £0.33 ⅓ of such preference stock and each Preferred Share shall be deemed to be 1 such preferred share.";

(vi) a subsection 2) be added to section 11 of Schedule C to the said articles for the purpose of determining the rights of the holders of the Preference and Preferred Shares on dissolution, so that the said subsection shall read as follows:

> "2) Upon the first subdivision of the Ordinary Shares and Preference Shares on a three-for-one basis becoming effective, for the purpose of determining the rights of the holders of the Preference Shares and of the Preferred Shares on dissolution in accordance with the rights, privileges, restrictions and conditions respectively attached thereto, each Ordinary Share and each Canadian Dollar Preference Share and Sterling Preference Share shall be deemed to be \$1.66 ⅔ of ordinary stock and \$1 and £0.33 ⅓ of preference stock respectively."

3. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to sign and deliver such other notices and documents and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

SCHEDULE II

Section 184 of the Canada Business Corporations Act

184. (1) **Right to Dissent** — Subject to sections 185 and 234, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 185.1(4)(d) that affects the holder or if the corporation resolves to

(a) amend its articles under section 167 or 168 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;

(b) amend its articles under section 167 to add, change or remove any restriction upon the business or businesses that the corporation may carry on;

(c) amalgamate with another corporation, otherwise than under section 178;

(d) be continued under the laws of another jurisdiction under section 182; or

(e) sell, lease or exchange all or substantially all its property under subsection 183(2).

(2) **Further Right** — A holder of shares of any class or series of shares entitled to vote under section 170 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) **Payment for Shares** — In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 185.1(4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) **No Partial Dissent** — A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) **Objection** — A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.

(6) **Notice of Resolution** — The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.

(7) **Demand for Payment** — A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing

(a) his name and address;

(b) the number and class of shares in respect of which he dissents; and

(c) a demand for payment of the fair value of such shares.

(8) **Share Certificate** — A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.

(9) **Forfeiture** — A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) **Endorsing Certificate** — A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) **Suspension of Rights** — On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where

(a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12),

(b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or

(c) the directors revoke a resolution to amend the articles under subsection 167(2) or 168(4), terminate an amalgamation agreement under subsection 177(6) or an application for continuance under subsection 182(6), or abandon a sale, lease or exchange under subsection 183(8),

in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).

(12) **Offer to Pay** — A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

(a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) **Same Terms** — Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) **Payment** — Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) **Corporation may apply to Court** — Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) **Shareholder Application to Court** — If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) **Venue** — An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) **No Security for Costs** — A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) **Parties** — Upon an application to a court under subsection (15) or (16),

(a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and

(b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.

(20) **Powers of Court** — Upon an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

Section 184 of the Canada Business Corporations Act (continued)

(21) **Appraisers** — A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) **Final Order** — The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of his shares as fixed by the court.

(23) **Interest** — A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) **Notice that subsection (26) applies** — If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) **Effect where subsection (26) applies** — If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

(a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or

(b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) **Limitation** — A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

SCHEDULE III

Canadian Pacific Limited

Special Resolution of Shareholders

RESOLVED as a special resolution that:

1. The articles of continuance of the Corporation be amended to change the maximum number of Ordinary Shares that the Corporation is authorized to issue from 100,000,000 to an unlimited number.
2. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

Legal deposit – 1st Quarter 1985

PRINTED IN CANADA

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 1985 Commission File Number 1-1342-2

Canadian Pacific Limited

Canada

98-0001377
(I.R.S. Employer Identification No.)

910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec, Canada H3C 3E4

Registrant's telephone number, including area code 514-395-5151

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 12, 1985
Ordinary shares without nominal or par value	214,986,840 shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No .....

Canadian Pacific Limited

Form 10-Q - For the Quarter Ended June 30, 1985

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Canadian Pacific Limited

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

STATEMENT OF CONSOLIDATED INCOME
UNAUDITED

	For the three months ended June 30		For the six months ended June 30	
	1985	1984	1985	1984
	(in thousands, except per share amounts)			
CP RAIL				
Revenues	$ 661,346	$ 652,771	$1,259,444	$1,250,952
Expenses including income taxes	615,546	600,455	1,200,296	1,169,677
Net income	45,800	52,316	59,148	81,275
CP AIR				
Revenues	360,251	300,165	661,535	547,376
Expenses including income taxes	356,195	297,156	666,697	558,383
	4,056	3,009	(5,162)	(11,007)
Preference dividend	801	826	1,604	1,621
Net income	3,255	2,183	(6,766)	(12,628)
CP SHIPS				
Revenues	90,695	88,093	176,079	166,405
Expenses including income taxes	89,326	93,061	172,315	179,611
	1,369	(4,968)	3,764	(13,206)
Minority interest	4,442	614	6,919	(298)
Net income	(3,073)	(5,582)	(3,155)	(12,908)
CP TRUCKS				
Revenues	96,403	93,330	187,873	183,195
Expenses including income taxes	95,669	92,817	188,418	183,539
Net income	734	513	(545)	(344)
SOO LINE CORPORATION				
Revenues	233,579	98,114	402,704	206,172
Expenses including income taxes	240,663	96,094	407,186	198,027
	(7,084)	2,020	(4,482)	8,145
Minority interest	(3,134)	895	(1,983)	3,609
Net income	(3,950)	1,125	(2,499)	4,536
CP TELECOMMUNICATIONS				
Revenues	44,242	43,004	87,962	84,521
Expenses including income taxes	42,086	40,903	83,263	80,648
Net income	2,156	2,101	4,699	3,873
MISCELLANEOUS				
Net income	(1,475)	(11,340)	(4,162)	(19,861)
TRANSPORTATION & MISCELLANEOUS				
Net income	43,447	41,316	46,720	43,943
CANADIAN PACIFIC ENTERPRISES LIMITED				
Revenues	2,609,640	2,565,490	4,985,549	4,932,618
Expenses including income taxes	2,530,137	2,454,438	4,805,066	4,768,004
	79,503	111,052	180,483	164,614
Minority interests	38,524	54,815	85,262	77,644
Net income	40,979	56,237	95,221	86,970
Total revenues	4,001,660	3,750,382	7,570,497	7,183,778
Total expenses including income taxes and minority interests	3,917,234	3,652,829	7,428,556	7,052,865
NET INCOME	$ 84,426	$ 97,553	$ 141,941	$ 130,913
DIVIDENDS PER ORDINARY SHARE	12¢	11.67¢	23.67¢	23.33¢
EARNINGS PER ORDINARY SHARE (Exhibit 11)	39¢	46¢	66¢	61¢

Canadian Pacific Limited

STATEMENT OF CONSOLIDATED RETAINED INCOME
UNAUDITED

	For the six months ended June 30 1985	1984
	(in thousands)	
Balance, January 1	$ 3,602,974	$ 3,327,138
Net income	141,941	130,913
	3,744,915	3,458,051
Gain arising from the increase in shareholders' equity of a subsidiary due to the issuance of common shares	843	235
	3,745,758	3,458,286
Dividends		
7¼% Preferred shares	181	429
4% Preference shares	261	261
Ordinary shares (per share: 1985-23.67¢; 1984-23.33¢)	50,880	50,164
Total dividends	51,322	50,854
Balance, June 30	$ 3,694,436	$ 3,407,432

STATEMENT OF CHANGES IN CONSOLIDATED FINANCIAL POSITION
UNAUDITED

	For the six months ended June 30 1985	1984
	(in thousands)	
SOURCE OF FUNDS		
Net income	$ 141,941	$ 130,913
Depreciation, depletion and amortization	489,699	430,641
Deferred income taxes	54,647	26,216
Minority interest in income of subsidiaries	91,802	82,576
Funds from operations	778,089	670,346
Reduction of investments	14,722	66,570
Issuance of long term debt	519,470	153,321
Issuance of shares by subsidiaries	12,483	105,808
Proceeds from sale of subsidiaries	73,773	-
Proceeds from disposal of properties	38,268	47,987
Sundries, net	33,583	15,123
Decrease (increase) in working capital	145,102	(12,600)
	$ 1,615,490	$ 1,046,555
APPLICATION OF FUNDS		
Additions to properties	$ 784,217	$ 493,171
Additions to investments	38,306	28,337
Acquisition of railway operations and related net assets by a subsidiary	257,366	-
Reduction in long term debt	339,970	409,685
Preferred shares purchased for cancellation	10,769	851
Dividends	51,322	50,854
Dividends paid minority shareholders of subsidiaries	66,800	63,657
Working capital deficit of railway operations acquired by a subsidiary	18,787	-
Working capital of subsidiaries sold	47,953	-
	$ 1,615,490	$ 1,046,555

Canadian Pacific Limited

CONSOLIDATED BALANCE SHEET

LIABILITIES

	Unaudited June 30, 1985	Dec. 31, 1984
	(in thousands)	
Current Liabilities		
Bank loans	$ 449,852	$ 414,750
Accounts payable and accrued liabilities	2,575,370	2,353,160
Notes and accrued interest payable	638,552	391,279
Income and other taxes payable	66,525	85,434
Dividends payable	40,945	41,486
Long term debt maturing within one year	294,526	291,270
	4,065,770	3,577,379
Deferred Liabilities	275,711	176,928
Insurance Reserve	4,363	4,000
Long Term Debt	5,819,119	5,317,722
Perpetual 4% Consolidated Debenture Stock	170,692	157,805
Minority Shareholders' Interest in Subsidiary Companies	3,057,466	2,997,161
Deferred Income Taxes	1,844,005	1,775,625
Deferred Income Credits	285,062	266,559
Shareholders' Equity (Note 6)		
Preferred shares		
Authorized - 20,381,788 shares without nominal or par value		
Issued - Nil (1984-1,077,122) 7¼% Cumulative Redeemable Series A shares	-	10,771
Preference shares - 4% non-cumulative		
Authorized - an amount not exceeding one-half the aggregate amount of Ordinary shares outstanding		
Issued - 2,561,769 Sterling Preference shares	4,156	4,156
- 10,713,816 Canadian Dollar Preference shares	10,714	10,714
	14,870	14,870
Ordinary shares		
Authorized - an unlimited number of shares without nominal or par value		
Issued - 214,986,840 shares	358,311	358,311
Premium on securities	115,310	115,308
Other paid-in surplus	162,288	161,390
Foreign currency translation adjustments	281,995	259,319
Retained income	3,694,436	3,602,974
	4,627,210	4,522,943
	$20,149,398	$18,796,122

Canadian Pacific Limited

CONSOLIDATED BALANCE SHEET

ASSETS

	Unaudited June 30, 1985	Dec. 31, 1984
	(in thousands)	
Current Assets		
Cash and temporary investments, at cost (approximates market)	$ 454,699	$ 483,687
Accounts receivable	2,414,764	2,073,843
Inventories		
Raw materials	572,724	603,442
Work in progress	269,603	266,041
Finished goods	581,475	589,002
Rail materials and supplies	300,175	236,367
Stores and materials	296,472	294,241
	2,020,449	1,989,093
	4,889,912	4,546,623
Insurance Fund (approximate market $4,716,000; 1984 - $4,215,000)	4,363	4,000
Investments	437,362	407,209
Properties, at cost		
CP Rail	4,597,870	4,448,451
CP Air	1,625,482	1,558,644
CP Ships	902,009	873,205
CP Trucks	205,933	205,116
Soo Line Corporation	1,599,221	935,015
CP Telecommunications	335,541	328,540
Miscellaneous	36,587	36,403
Canadian Pacific Enterprises Limited	11,821,503	11,425,931
	21,124,146	19,811,305
Less: Accumulated depreciation, depletion and amortization	6,922,653	6,564,149
	14,201,493	13,247,156
Other Assets and Deferred Charges	616,268	591,134
	$20,149,398	$18,796,122

Canadian Pacific Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

1. Canadian Pacific Enterprises Limited-Net Income

	For the three months ended June 30 1985	For the three months ended June 30 1984	For the six months ended June 30 1985	For the six months ended June 30 1984
	(in thousands)			
OIL AND GAS				
Gross operating revenue	$ 275,248	$ 251,053	$ 579,120	$ 521,992
Expenses including income and revenue taxes	206,715	179,864	422,245	373,729
	68,533	71,189	156,875	148,263
Interest of outside shareholders	8,854	9,198	20,268	19,156
Net income	59,679	61,991	136,607	129,107
MINES AND MINERALS				
Gross operating revenue	568,518	527,177	993,740	987,217
Expenses including income taxes	562,349	503,446	982,858	957,009
	6,169	23,731	10,882	30,208
Interest of outside shareholders	2,974	11,643	5,550	15,828
Net income	3,195	12,088	5,332	14,380
FOREST PRODUCTS				
Sales and operating revenue	547,169	551,568	1,089,828	1,061,192
Expenses including income taxes	553,043	557,726	1,099,426	1,096,835
	(5,874)	(6,158)	(9,598)	(35,643)
Interest of outside shareholders	6	146	2,710	(3,306)
Net income	(5,880)	(6,304)	(12,308)	(32,337)
IRON AND STEEL				
Sales and operating revenue	857,869	802,891	1,625,805	1,539,418
Expenses including income taxes	851,902	797,780	1,617,754	1,549,211
	5,967	5,111	8,051	(9,793)
Interest of outside shareholders	6,503	7,870	10,683	6,236
Net income	(536)	(2,759)	(2,632)	(16,029)
REAL ESTATE				
Gross rentals and other income	68,154	66,273	136,344	132,547
Expenses including income taxes	63,721	58,232	125,089	120,218
	4,433	8,041	11,255	12,329
Interest of outside shareholders	125	96	225	180
Net income	4,308	7,945	11,030	12,149
AGRIPRODUCTS				
Gross operating revenue	252,296	331,021	481,609	621,780
Expenses including income taxes	254,874	326,921	481,303	612,045
	(2,578)	4,100	306	9,735
Interest of outside shareholders	696	587	1,363	1,145
Net income	(3,274)	3,513	(1,057)	8,590
OTHER BUSINESSES				
Gross operating revenue	28,564	23,111	55,526	45,289
Expenses including income taxes	25,359	20,918	49,656	41,413
Net income	3,205	2,193	5,870	3,876
FINANCIAL				
Gross operating revenue	35,214	38,364	72,007	73,625
Expenses including income taxes	35,566	35,519	75,165	67,986
Net income	(352)	2,845	(3,158)	5,639
CANADIAN PACIFIC ENTERPRISES LIMITED				
Net income	60,345	81,512	139,684	125,375
Minority interest	19,366	25,275	44,463	38,405
NET INCOME	$ 40,979	$ 56,237	$ 95,221	$ 86,970

Canadian Pacific Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

2. Expenses Including Income Taxes

	For the three months ended June 30 1985	1984	For the six months ended June 30 1985	1984
	(in thousands)			
CP RAIL				
Maintenance	$ 187,351	$ 179,558	$ 362,515	$ 355,290
Transportation	209,210	211,701	425,009	417,166
General and administrative	123,274	120,231	249,988	241,095
Depreciation and amortization	31,407	29,077	62,210	57,976
Fixed charges	18,000	12,900	37,200	25,800
Income taxes	46,304	46,988	63,374	72,350
	$ 615,546	$ 600,455	$1,200,296	$1,169,677
CP AIR				
Maintenance	$ 24,718	$ 19,105	$ 49,811	$ 38,365
Operating expenses and cost of goods sold	190,379	170,797	369,092	329,168
Selling, general and administrative	98,480	72,226	182,422	140,758
Depreciation and amortization	24,360	20,150	46,711	37,195
Interest	14,522	12,843	28,993	25,210
Income taxes	3,736	2,035	(10,332)	(12,313)
	$ 356,195	$ 297,156	$ 666,697	$ 558,383
CP SHIPS				
Maintenance	$ 5,434	$ 8,269	$ 10,351	$ 12,846
Other operating	53,547	57,767	98,004	110,608
Selling, general and administrative	8,594	10,072	25,706	22,562
Depreciation and amortization	14,549	11,049	25,288	21,938
Interest	3,989	5,352	8,000	10,469
Income taxes	3,213	552	4,966	1,188
	$ 89,326	$ 93,061	$ 172,315	$ 179,611
CP TRUCKS				
Maintenance	$ 6,764	$ 6,905	$ 13,161	$ 14,000
Other operating	69,094	66,254	137,688	132,496
Selling, general and administrative	13,841	14,561	28,191	28,964
Depreciation and amortization	4,043	3,868	7,871	7,198
Interest	1,343	929	2,618	1,651
Income taxes	584	300	(1,111)	(770)
	$ 95,669	$ 92,817	$ 188,418	$ 183,539
SOO LINE CORPORATION				
Maintenance	$ 64,874	$ 28,408	$ 103,276	$ 53,293
Traffic	6,106	2,442	10,158	4,727
Other operating	138,517	50,454	231,111	107,209
General and administrative	8,048	4,987	18,202	9,960
Depreciation and amortization	14,257	6,348	24,605	12,545
Fixed charges	15,599	2,937	24,097	5,900
Income taxes	(6,738)	518	(4,263)	4,393
	$ 240,663	$ 96,094	$ 407,186	$ 198,027
CP TELECOMMUNICATIONS				
Operating and maintenance	$ 24,210	$ 21,952	$ 47,499	$ 43,778
Selling, general and administrative	8,004	9,519	16,020	18,280
Depreciation and amortization	5,661	5,570	11,219	11,085
Interest	1,853	1,734	3,594	3,584
Income taxes	2,358	2,128	4,931	3,921
	$ 42,086	$ 40,903	$ 83,263	$ 80,648

2. Expenses Including Income Taxes (Continued)

	For the three months ended June 30 1985	For the three months ended June 30 1984	For the six months ended June 30 1985	For the six months ended June 30 1984
	(in thousands)			
MISCELLANEOUS				
Operating, general and administrative	$ 11,066	$ 10,499	$ 23,938	$ 27,250
Depreciation and amortization	6,002	10,364	11,442	10,634
Fixed charges	9,497	12,987	17,257	23,133
Income taxes	(5,970)	(8,901)	(12,964)	(15,228)
	$ 20,595	$ 24,949	$ 39,673	$ 45,789
CANADIAN PACIFIC ENTERPRISES LIMITED				
Operating expenses and cost of goods sold	$1,858,086	$1,821,417	$3,509,150	$3,546,185
Distribution, selling, general and administrative	297,560	267,636	553,089	520,125
Depreciation, depletion and amortization	151,750	140,580	300,353	272,070
Interest	124,517	128,163	252,560	249,573
Income taxes	98,224	96,642	189,914	180,051
	$2,530,137	$2,454,438	$4,805,066	$4,768,004

3. Canadian Pacific Enterprises Limited - Expenses Including Income Taxes

	1985 (three months)	1984 (three months)	1985 (six months)	1984 (six months)
OIL AND GAS				
Cost of goods sold	$ 62,503	$ 50,331	$ 128,064	$ 105,889
Selling, general and administrative	10,051	8,714	19,754	16,683
Depreciation, depletion and amortization	38,935	31,944	75,965	65,386
Interest	6,192	5,262	12,173	10,587
Income and revenue taxes	89,034	83,613	186,289	175,184
	$ 206,715	$ 179,864	$ 422,245	$ 373,729
MINES AND MINERALS				
Cost of goods sold	$ 384,064	$ 340,515	$ 668,550	$ 652,644
Distribution, selling, general and administrative	113,465	96,187	199,434	180,997
Depreciation, depletion and amortization	34,721	34,139	69,305	67,724
Interest	23,590	23,701	46,462	46,196
Income taxes	6,509	8,904	(893)	9,448
	$ 562,349	$ 503,446	$ 982,858	$ 957,009
FOREST PRODUCTS				
Cost of goods sold	$ 464,607	$ 460,479	$ 924,772	$ 916,095
Selling, general and administrative	19,819	19,489	36,447	40,695
Depreciation, depletion and amortization	37,241	32,821	73,126	61,468
Interest	35,280	39,567	72,546	76,713
Income taxes	(3,904)	5,370	(7,465)	1,864
	$ 553,043	$ 557,726	$1,099,426	$1,096,835

3. Canadian Pacific Enterprises Limited - Expenses Including Income Taxes (Continued)

	For the three months ended June 30 1985	For the three months ended June 30 1984	For the six months ended June 30 1985	For the six months ended June 30 1984
	(in thousands)			
IRON AND STEEL				
Cost of goods sold	$ 702,395	$ 660,157	$1,321,729	$1,284,927
Selling, general and administrative	91,156	84,935	177,733	169,264
Depreciation, depletion and amortization	30,025	31,101	60,514	56,402
Interest	29,117	33,211	60,401	64,477
Income taxes	(791)	(11,624)	(2,623)	(25,859)
	$ 851,902	$ 797,780	$1,617,754	$1,549,211
REAL ESTATE				
Operating expenses and cost of sales	$ 34,455	$ 31,135	$ 66,135	$ 67,820
Depreciation	4,924	3,823	9,549	7,630
Interest	20,669	18,207	41,279	35,343
Income taxes	3,673	5,067	8,126	9,425
	$ 63,721	$ 58,232	$ 125,089	$ 120,218
AGRIPRODUCTS				
Cost of goods sold	$ 194,189	$ 267,317	$ 368,213	$ 494,253
Selling, general and administrative	51,232	46,969	94,635	91,815
Depreciation and amortization	4,064	5,253	8,283	10,333
Interest	3,530	4,532	7,021	9,176
Income taxes	1,859	2,850	3,151	6,468
	$ 254,874	$ 326,921	$ 481,303	$ 612,045
OTHER BUSINESSES				
Operating expenses and cost of goods sold	$ 15,873	$ 11,483	$ 31,687	$ 24,557
Selling, general and administrative	5,008	5,615	9,973	9,502
Depreciation and amortization	1,766	1,535	3,468	3,105
Interest	323	722	640	1,475
Income taxes	2,389	1,563	3,888	2,774
	$ 25,359	$ 20,918	$ 49,656	$ 41,413
FINANCIAL				
General and administrative	$ 6,829	$ 5,727	$ 15,113	$ 11,169
Depreciation and amortization	74	(36)	143	22
Interest	29,208	28,929	60,468	56,048
Income taxes	(545)	899	(559)	747
	$ 35,566	$ 35,519	$ 75,165	$ 67,986

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

	For the three months ended June 30 1985	1984	For the six months ended June 30 1985	1984
	(in thousands)			
4. Interest Expense	$ 186,837	$ 174,043	$ 368,116	$ 337,541
5. Income Taxes				
Current	$ 105,359	$ 107,717	$ 179,868	$ 207,376
Deferred	36,352	32,545	54,647	26,216
	$ 141,711	$ 140,262	$ 234,515	$ 233,592

6. Shareholders' Equity

On March 28, 1985, all of the Corporation's outstanding 7¼% Cumulative Redeemable Preferred shares, Series A, were called for redemption. The Redemption Agent has been put in funds sufficient to pay the redemption price in respect of each such share outstanding on that date.

On May 1, 1985, the Corporation amended its articles to increase the number of Ordinary shares it is authorized to issue to an unlimited number.

The Corporation's Ordinary and Preference shares were split on a three-for-one basis effective May 17, 1985.

7. Investment Tax Credits

Effective January 1, 1985, Canadian Pacific Limited changed its basis of accounting for investment tax credits from the flow-through approach to the cost reduction approach in accordance with a recent recommendation of the Canadian Institute of Chartered Accountants. This change had the effect of reducing consolidated net income for the first six months by approximately $13 million or 6¢ per share.

8. Presentation of Interim Financial Statements

The unaudited financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. Unless otherwise specified, all dollar amounts are expressed in Canadian dollars. For the first six months of 1985, net income on the basis of U.S. GAAP would have been approximately $118 million or 55¢ per share (1984 - $83 million or 38¢ per share). The different accounting treatment for oil and gas activities and foreign exchange (and in 1984 for foreign exchange) accounts primarily for the difference between net income under Canadian and U.S. GAAP.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL CONDITION

At June 30, 1985 CP Limited's consolidated assets amounted to $20,149 million, an increase of $1,353 million from December 31, 1984.

During the first half of 1985 funds from operations totalled $778 million and the issuance of long term debt amounted to $519 million. In addition, there were proceeds of $74 million from the sale of subsidiary companies; Enterprises sold Baker Commodities, Inc. in January and Theresa Friedman & Sons, Inc. in June, and CIP Inc. sold CIP Daxion Inc. in February. With respect to the application of funds, $784 million was for additions to properties, $340 million represented debt reduction and $257 million was used to acquire the railway operations and related net assets of the Milwaukee Road. Working capital decreased $145 million.

The issuance of long term debt during the first six months comprised $138 million which reflected CP Limited's issue in June of U.S. $100 million 10-3/4% debentures due 1993; $170 million which was attributable to Soo Line mainly toward its acquisition of the Milwaukee; and $199 million which came from the subsidiaries of Enterprises, especially AMCA International, CIP Inc., Algoma Steel and Cominco.

Subsequent Development

In July, Enterprises announced the purchase by PanCanadian of all the tax losses and investment tax credits of CIP for $65 million. CIP used the proceeds to reduce its debt. The transaction, which will benefit both CIP and PanCanadian, will result in a total gain at the Enterprises level of approximately $22 million in 1986 as the tax losses are realized. CIP Forest Products Inc. was also merged with CIP Inc. to continue under the name CIP Inc.

RESULTS OF OPERATIONS

While economic prospects in Canada remain favourable, growth in the Company's earnings could continue to be inhibited by weak traffic volumes and generally unsatisfactory rate and price levels.

Comparison of First Six Months 1985 and 1984

Consolidated net income for the first half of 1985 totalled $141.9 million, up $11.0 million from the comparable period of 1984. After adjustment for the three-for-one stock split effective May 17, 1985, earnings per Ordinary share amounted to $0.66, or $0.05 over the first six months of 1984.

The improvement was due largely to reduced losses from Miscellaneous, CP Ships and CP Air and to higher income from Canadian Pacific Enterprises Limited. However, results of CP Rail and Soo Line Corporation were worse than in the first half of 1984.

CP Rail

CP Rail's net income of $59.1 million declined $22.1 million from the first six months of last year. Earnings this year were reduced by approximately $7 million because of a change in the basis of accounting for investment tax credits effective January 1, 1985. The change was in accordance with a recommendation of the Canadian Institute of Chartered Accountants.

Revenues of $1,259.4 million were up $8.5 million. The effects of better freight rates were largely offset by reduced volumes, especially of wheat and other grain which were affected by severe drought conditions in the Prairie Provinces during the summer of 1984.

Expenses totalling $1,200.3 million rose $30.6 million reflecting mainly higher costs of materials and fuel and increased interest expense. Labour expenses, on the other hand, were lower.

CP Rail recently reached agreement with its non-operating railway unions on a new two-year labour contract effective January 1, 1985, providing a general wage increase of 4% per year and certain other benefits. Contracts covering three other major groups have yet to be settled.

CP Air

CP Air's loss of $6.8 million was $5.9 million less than in the first six months of 1984.

A loss of $14.5 million from airline operations was $1.5 million greater, owing to the inclusion this year of a $3.8 million loss from Eastern Provincial Airways which was acquired in August 1984. Operations of the CP airline division showed improvement due to both increased passenger revenue and control of costs.

Hotel operations had a profit of $7.7 million in the first six months. The increase of $7.4 million over the comparable period last year was attributable not only to compensation received in the first quarter for early termination of a hotel management contract but also improved operating results.

CP Air and three unions representing most of the airline's non-management employees recently negotiated labour contracts covering a period of three years. The new agreements, which include work rule changes, are expected to have a favourable impact on operations.

CP Ships

The loss of $3.2 million was $9.8 million less than in the first half of 1984.

Container Operations had a profit of $8.6 million in the six-month period, compared with a loss of $2.0 million in last year's first half. The turnaround stemmed from stronger rates and lower expenses.

Bulk Shipping's loss of $11.8 million was up $862,000 over the first six months of 1984. The effects of weak shipping markets and losses on sale of two vessels were largely offset by income from settlement of a charter dispute.

Soo Line Corporation

CP Limited's 55.7% share of the loss reported by Soo Line amounted to $2.5 million in the first six months, compared with a profit of $4.5 million in the same period of 1984. The deterioration was attributable largely to lower freight traffic and greater interest charges associated with additional borrowings to acquire the Milwaukee Road in February 1985.

Miscellaneous

A loss of $4.2 million from Miscellaneous was $15.7 million less than in the first six months of 1984. Contributing to the improvement were tax benefits related to the recent tube mill partnership arrangement between CP Limited and Algoma Steel, a gain from the early termination of a leasehold interest, reduced interest charges and favourable currency exchange movements.

Canadian Pacific Enterprises Limited

CP Limited's 69.7% interest in Enterprises contributed income of $95.2 million, up $8.3 million over the first half of 1984. There were material changes in results of the following sectors: Oil and Gas, Forest Products and Iron and Steel which all showed improvement, and Mines and Minerals, Agriproducts, and Financial where there were reductions.

Oil and Gas

Enterprises' income from PanCanadian Petroleum amounted to $136.6 million, up $7.5 million over the first six months of 1984.

PanCanadian's revenues of $579 million were up $57 million, while expenses of $422 million rose $48 million. The increases reflected principally higher volumes of oil, natural gas and natural gas liquids.

Mines and Minerals

Net income from Mines and Minerals of $5.3 million during the first six months was down $9.0 million.

Enterprises' loss from Cominco amounted to $2.2 million, in contrast with net income of $10.1 million in the first half of 1984. Cominco's revenues of $836 million were up only $5 million over the first half of 1984, as depressed prices for zinc, lead, silver and gold largely offset the effects of improved prices and volumes of chemicals and fertilizers and increased volumes of zinc and lead concentrates. Included in Cominco's revenues this year was a net gain of $9.4 million on the sale of a part of its interest in Pine Point Mines Limited, whereas in 1984 there was a net gain of $5.2 million arising mainly from the sale of an oil recovery project. Expenses amounting to $832 million increased $27 million, primarily as a result of the higher sales volumes.

Forest Products

The Forest Products sector incurred a loss of $12.3 million, which was a reduction of $20.0 million from the loss recorded in the first half of 1984.

A loss of $14.0 million made by CIP Inc. was $20.9 million lower. CIP's 1984 results were restated to reflect the loss from Pacific Forest Products Limited which became a subsidiary of CIP on January 1, 1985, upon amalgamation with Tahsis Company Ltd. to form CIP Forest Products Inc. Total revenues of CIP were $795 million, up $30 million attributable chiefly to improved newsprint prices and the positive effects from a stronger U.S. dollar. Selling prices for pulp, however, were depressed. Total expenses of $813 million were up $7 million on account of cost increases, partially offset by lower interest expense.

Iron and Steel

The loss of $2.6 million from Iron and Steel was $13.4 million less than in the first six months of 1984.

Enterprises' loss from Algoma Steel was $7.2 million, an improvement of $10.6 million compared with the loss in the first six months of 1984. Algoma's revenues of $604 million were up $16 million owing chiefly to higher shipments and some improvement in product mix. Steel selling prices remained weak. Expenses of $608 million declined $1 million due to cost containment.

Agriproducts

There was a loss of $1.1 million in the Agriproducts sector, compared with net income of $8.6 million in the first half last year. A provision in June for a net loss on the sale by Maple Leaf Mills of its 50% interest in Maple Leaf Monarch Company accounted for $7.3 million of the reduction.

Financial

A loss of $3.2 million, contrasting with income of $5.6 million in the first six months of 1984, was due largely to reduced interest income.

Canadian Pacific Limited

Comparison of Second Quarter 1985 and 1984

CP Limited's consolidated net income in the second quarter amounting to $84.4 million, or $0.39 per Ordinary share, decreased $13.1 million, or $0.07 per share, from the same period last year.

Major reductions occurred in results of Canadian Pacific Enterprises Limited, CP Rail and Soo Line Corporation. On the other hand, there was a substantial decrease in the loss from Miscellaneous.

CP Rail

Net income from CP Rail amounted to $45.8 million, a decrease of $6.5 million from the second quarter last year. The change in accounting for investment tax credits had the effect of lowering net income by $5 million in the second quarter this year.

Revenues of $661.3 million rose $8.6 million reflecting higher freight rates, partially offset by reduced traffic levels. The most substantial declines occurred in wheat and other grain traffic reflecting the severe drought in the Prairie Provinces during the summer of 1984.

Total expenses amounted to $615.5 million, an increase of $15.1 million. Higher material costs and increased interest expense more than offset reduced labour expenses.

Soo Line Corporation

CP Limited's 55.7% share of Soo's loss amounted to $4.0 million in the second quarter. This was in contrast with income of $1.1 million from Soo in the comparable quarter of 1984. As in the first six months, Soo's freight traffic fell and interest expense was higher due to the Milwaukee purchase.

Miscellaneous

A loss of $1.5 million from Miscellaneous was $9.9 million less than in the second quarter of 1984, with the chief reasons being favourable currency exchange fluctuations and tax benefits arising from the CP Limited/Algoma Steel tube mill partnership arrangement.

Canadian Pacific Enterprises Limited

In the second quarter of 1985 CP Limited's share of income from Enterprises amounted to $41.0 million, a decrease of $15.3 million from the comparable period of last year. The Mines and Minerals and Agriproducts sectors were largely responsible for the reduction in income.

Mines and Minerals

Income of $3.2 million from Mines and Minerals in the second quarter was down $8.9 million from the same quarter of 1984.

Enterprises' income from Cominco decreased $9.5 million in the second quarter. Cominco's revenues of $483 million were up $31 million reflecting mainly increased sales volumes of zinc and lead concentrates and chemicals and fertilizers, partially offset by the effects of lower prices for zinc, lead, silver and gold. Cominco's revenues in the second quarter of 1984 also included a net gain of $5.2 million due mostly to the sale of an oil recovery project. Expenses of $479 million rose $48 million due to the higher sales volumes.

Agriproducts

The loss of $3.3 million posted by the Agriproducts sector contrasts with a profit of $3.5 million in the second quarter of 1984. The reversal was caused by the provision in June for a net loss of $7.3 million on the sale by Maple Leaf Mills of its 50% interest in Maple Leaf Monarch Company.

Canadian Pacific Limited

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

Annual General Meeting of shareholders held on May 1, 1985
- Report of proceedings incorporated by reference (See Item 6(a).

Item 5. Other Events

On June 26, 1985 Power Corporation of Canada (Power) and Consolidated-Bathurst Inc. (an affiliate of Power) announced that they had agreed to sell 10,104,600 and 1,261,400 Ordinary shares respectively of Canadian Pacific Limited (the Corporation) for distribution to the public for an aggregate purchase price of Cdn. $218,795,500.

Mr. Paul G. Desmarais, O.C., a director of the Corporation, is Chairman and Chief Executive Officer and controlling stockholder of Power, and is deemed under regulations of the United States Securities and Exchange Commission (SEC) to have been a beneficial owner of the Corporation's shares sold by Power and Consolidated-Bathurst Inc. Mr. James W. Burns, also a director of the Corporation, is President and a director of Power and may also be deemed under the same regulations to have been a beneficial owner of the Corporation's shares sold by Power and Consolidated-Bathurst Inc.

As at March 11, 1985, Mr. Desmarais was, under regulations of the SEC, deemed to be a beneficial owner of 24,669,852 Ordinary shares (as determined after the three-for-one share split effective May 17, 1985) representing 11.48% of the Ordinary shares of the Corporation then outstanding; Mr. Desmarais disclaims beneficial ownership of 14,565,252 shares not owned by Power directly. Under the same regulations, Mr. Burns may also have been deemed to be a beneficial owner of the same shares; Mr. Burns also disclaims beneficial ownership of shares not owned by Power directly.

The agreement dated December 15, 1981 between the Corporation, Power and Mr. Desmarais, relating to the ownership and voting of the Corporation's shares, continues in effect.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits
   Exhibit No. 11 Statement re Computation of Per Share Earnings.

   Exhibit No. 23 Copy of Report of Proceedings May 1, 1985 of the 104th Annual General Meeting of Shareholders, Canadian Pacific Limited.

b) Reports on Form 8-K
   No reports on Form 8-K were filed for the three months ended June 30, 1985.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Canadian Pacific Limited
(Registrant)

Date August 12, 1985

(Sgd.) J.P.T. CLOUGH
J.P.T. Clough
Vice-President
Finance and Accounting

Date August 12, 1985

(Sgd.) J. THOMSON
J. Thomson
Comptroller

Exhibit 11

CANADIAN PACIFIC LIMITED

Statement re Computation of Per Share Earnings

	For the three months ended June 30		For the six months ended June 30	
	1985	1984	1985	1984
	(in thousands, except per share amounts)			
Net income	$ 84,426	$ 97,553	$141,941	$130,913
Deduct: Dividends on preferred and preference shares	131	341	442	690
Adjusted net income	$ 84,295	$ 97,212	$141,499	$130,223
Ordinary shares outstanding	214,987	214,987*	214,987	214,987*
Earnings per Ordinary Share	39¢	46¢	66¢	61¢

* After adjusting for the three-for-one share split effective May 17, 1985.

Canadian Pacific News

Release: Immediate, Aug. 12, 1985 (669)

NEW DIVIDEND REINVESTMENT PLAN FOR CANADIAN PACIFIC

MONTREAL - The existing market share dividend reinvestment plan of Canadian Pacific Limited will be changed to a treasury share plan effective Aug. 30, 1985, it was confirmed today.

Under the plan, shareholders will be entitled to reinvest cash dividends in new ordinary shares of the corporation at market price. Shareholders will also be permitted to invest cash for the purchase of additional new ordinary shares to a maximum of $20,000 per calendar year.

The new ordinary shares can be purchased directly from Canadian Pacific Limited, without brokerage commissions, at the average of the closing prices for a board lot (100 shares) of the ordinary shares on

MORE

the Montreal and Toronto stock exchanges during the five trading days prior to the investment date.

Whole new ordinary shares purchased under the plan will qualify for inclusion in a Quebec stock savings plan (QSSP) under the Taxation Act (Quebec).

30

Reference: G.F. La Fontaine
Montreal
(514) 395-7353

Canadian Pacific Limited

Notice of Special Meeting of Shareholders

Notice is hereby given that a Special Meeting of Shareholders of Canadian Pacific Limited (CPL) will be held on Thursday, December 5, 1985 at Le Château Champlain, Place du Canada, Montreal, Quebec, Canada, commencing at 10:00 a.m., Montreal time, for the following purposes:

(a) to consider and, if thought advisable, to approve the issue of Ordinary Shares in connection with a proposed merger of Canadian Pacific Enterprises Limited (CPE) and CPL pursuant to an Amalgamation Agreement dated October 16, 1985 among CPE, CPL and CPS Limited (a wholly owned subsidiary of CPL);

(b) to consider and, if thought advisable, to pass a special resolution to amend the articles of CPL to increase the maximum number of directors from 24 to 30 (the text of this special resolution is set out as Schedule V to the accompanying Joint Proxy Statement which forms part of this notice); and

(c) subject to the passing of the said special resolution, to elect five additional directors of CPL effective upon implementation of the merger.

The Board of Directors has specified that proxies to be used at the Special Meeting of Shareholders must be deposited at Montreal, Quebec, Canada, with CPL or Montreal Trust Company as agent for CPL, 36 hours, excluding Saturdays and holidays, preceding the meeting or an adjournment thereof.

By order of the Board of Directors,
D. J. Deegan, Secretary.
Montreal, October 16, 1985.

NOTE:
If you are unable to attend the meeting in person, please complete and return the enclosed form of proxy in the envelope provided.

CANADIAN PACIFIC LIMITED
910 Peel Street
Montreal, Quebec
Canada H3C 3E4
Telephone (514) 395-5151

CANADIAN PACIFIC ENTERPRISES LIMITED
Suite 2300, One Palliser Square
125 – 9th Avenue S.E.
Calgary, Alberta, Canada T2G 0P6
Telephone (403) 231-6100

Joint Proxy Statement

Merger of

Canadian Pacific Enterprises Limited

and

Canadian Pacific Limited

Special Meetings of Shareholders
December 5 and 6, 1985

UNITED STATES SHAREHOLDERS:

THIS JOINT PROXY STATEMENT CONSTITUTES A PROSPECTUS RELATING TO 1.675 ORDINARY SHARES OF CANADIAN PACIFIC LIMITED FOR EACH COMMON SHARE OF CANADIAN PACIFIC ENTERPRISES LIMITED HELD BY A UNITED STATES SHAREHOLDER. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS JOINT PROXY STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

UNITED KINGDOM SHAREHOLDERS:

A COPY OF THIS DOCUMENT, AND OF THE DOCUMENTS REFERRED TO ON PAGE iii OF THIS DOCUMENT AS BEING INCORPORATED BY REFERENCE HEREIN, WHICH TOGETHER COMPRISE LISTING PARTICULARS RELATING TO CANADIAN PACIFIC LIMITED IN ACCORDANCE WITH THE STOCK EXCHANGE (LISTING) REGULATIONS 1984 OF THE UNITED KINGDOM, HAS BEEN DELIVERED FOR REGISTRATION TO THE REGISTRAR OF COMPANIES AS REQUIRED BY REGULATION 7 (5) OF THOSE REGULATIONS.

The date of this Joint Proxy Statement is October 16, 1985.

Certain Matters of Interest to United States Shareholders

Available Information

Canadian Pacific Limited (CPL) and Canadian Pacific Enterprises Limited (CPE) are subject to the information requirements of the Securities Exchange Act of 1934 (the Exchange Act) and in accordance therewith file reports, proxy statements and other information with the United States Securities and Exchange Commission (the SEC). Such reports, proxy statements and other information filed by CPL and by CPE can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 450 5th Street, N.W., Washington, D.C. 20549 and at the following Regional Offices of the SEC: Suite 500 East, 5757 Wilshire Boulevard, Los Angeles, California 90036; Room 1204, 219 South Dearborn Street, Chicago, Illinois 60604; and Room 1028, 26 Federal Plaza, New York, New York 10278. Copies of such material can be obtained at prescribed rates from the Public Reference Section of the SEC, 450 5th Street, N.W., Washington, D.C. 20549. Such reports, proxy statements and other information concerning CPL and CPE can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Documents Incorporated by Reference

The following documents heretofore filed by CPL and by CPE with the SEC under the Exchange Act are incorporated herein by reference:

(a) CPL's Annual Report on Form 10-K for the year ended December 31, 1984 and, to the full extent so filed and incorporated by reference in such Annual Report, CPL's 1984 Annual Report to Shareholders;
(b) CPL's Current Reports on Form 8-K dated February 13, 1985, September 6, 1985 and September 16, 1985;
(c) CPL's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1985 and June 30, 1985;
(d) CPE's Annual Report on Form 10-K for the year ended December 31, 1984 and, to the full extent so filed and incorporated by reference in such Annual Report, CPE's 1984 Annual Report to Shareholders;
(e) CPE's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1985 and June 30, 1985; and
(f) CPE's Current Report on Form 8-K dated September 16, 1985.

All documents filed by CPL and by CPE pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Joint Proxy Statement and prior to the Special Meeting of CPE Shareholders on December 6, 1985 shall be deemed to be incorporated by reference in this Joint Proxy Statement and to be a part hereof from the date of filing of such documents.

Each of CPL and CPE hereby undertakes to provide without charge to each of its shareholders to whom a copy of this Joint Proxy Statement has been delivered, on the written or oral request of such person, a copy of any or all of the documents referred to above which have been or may be incorporated by reference in this Joint Proxy Statement, other than exhibits to such documents. Written requests for such copies should be directed, in the case of CPL, to the Secretary, Canadian Pacific Limited, 910 Peel Street, P.O. Box 6042, Station A, Montreal, Quebec H3C 3E4 (telephone number 514-395-5151), and, in the case of CPE, to the Vice-President Administration and Secretary, Canadian Pacific Enterprises Limited, Suite 2300, One Palliser Square, 125 – 9th Avenue S.E., Calgary, Alberta T2G 0P6 (telephone number 403-231-6100). In order to ensure timely delivery of the documents, any request should be made by the fifth business day preceding the relevant meeting.

CPL and CPE are Canadian corporations. Most of their respective directors and officers and the experts named herein are residents of Canada, and most of the assets of CPL and of CPE are located outside the United States. As a result, it may be difficult for investors to effect service within the United States upon such directors, officers and experts or to realize against them or the assets of CPL or CPE upon any judgments of courts of the United States predicated upon the civil liability provisions of the United States federal securities laws. In addition, there is doubt as to the enforceability in Canada of liabilities predicated solely upon such provisions, either in original actions or in actions for enforcement of judgments of United States courts.

In this Joint Proxy Statement, unless otherwise specified or the context otherwise requires, all dollar amounts are expressed in Canadian dollars. Since June 1, 1970 the Government of Canada has permitted a floating exchange rate to determine the value of the Canadian dollar against the United States dollar. On October 15, 1985, the noon buying rate in New York City, payable in Canadian dollars as reported by the Federal Reserve Bank of New York, was U.S. $0.7298 = Can. $1.00. The high, low, closing and average spot rates for the Canadian dollar in terms of United States dollars for the five years ended December 31, 1984 and for the six months ended June 30, 1985, as reported by the Federal Reserve Bank of New York, were as follows:

	June 30,	December 31				
	1985	1984	1983	1982	1981	1980
High	0.7575	0.8054	0.8201	0.8430	0.8499	0.8754
Low	0.7130	0.7492	0.7993	0.7691	0.8048	0.8258
Closing	0.7357	0.7566	0.8035	0.8132	0.8430	0.8372
Average	0.7336	0.7710	0.8108	0.8088	0.8338	0.8546

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Accompanying this Joint Proxy Statement is a booklet containing: in respect of CPL, its Annual Information Form dated May 1, 1985, Form 10-K Annual Report for the year ended December 31, 1984, 1984 Annual Report to Shareholders, Management Proxy Statement dated March 11, 1985, Form 8-K Current Reports dated February 13, 1985 and September 6, 1985, Form 10-Q Quarterly Report for the quarter ended June 30, 1985 and Report to Shareholders for the six months ended June 30, 1985; and in respect of CPE, its Annual Information Form dated April 26, 1985, Form 10-K Annual Report for the year ended December 31, 1984, 1984 Annual Report to Shareholders, Proxy Statement dated March 1, 1985, Form 10-Q Quarterly Report for the quarter ended June 30, 1985 and Report to Shareholders for the six months ended June 30, 1985. These documents are incorporated herein by reference.

No person is authorized to give any information or make any representation not contained in this Joint Proxy Statement in connection with the issue of Ordinary Shares of CPL referred to in this Joint Proxy Statement and, if given or made, such information or representation should not be relied upon as having been authorized by CPL or CPE. Neither the delivery of this Joint Proxy Statement nor any distribution of securities made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of CPL or CPE since the date of this Joint Proxy Statement.

Summary

The following is a summary of certain information contained in this Joint Proxy Statement. It is selective, incomplete and qualified in its entirety by the more detailed information appearing or referred to elsewhere in this Joint Proxy Statement.

Date, Time and Place of Meetings

CPL –December 5, 1985, 10:00 a.m. (Montreal time), Le Château Champlain, Place du Canada, Montreal, Quebec.

CPE –December 6, 1985, 11:00 a.m. (Calgary time), The Palliser Hotel, 133 – 9th Avenue South West, Calgary, Alberta.

Record Dates

CPL and ***CPE*** – October 25, 1985. See "General Proxy Information – Voting Securities and Principal Holders Thereof".

Purposes of Meetings

CPL – To approve the issue of CPL Ordinary Shares in connection with a proposed merger of CPE and CPL pursuant to an Amalgamation Agreement among CPE, CPL and CPS Limited (CPS, a wholly owned subsidiary of CPL); to pass a special resolution to amend CPL's articles to increase the maximum number of directors from 24 to 30; and to elect five additional directors of CPL effective on implementation of the merger.

CPE – To pass a special resolution approving the Amalgamation Agreement among CPE, CPL and CPS.

Votes Required

CPL – In respect of the issue of CPL Ordinary Shares, a majority of the votes cast by the Ordinary and Preference Shareholders voting together; in respect of the special resolution to increase the maximum number of directors, two-thirds of the votes cast by the Ordinary and Preference Shareholders voting together; and in respect of the election of directors, a majority of the votes cast by the Ordinary and Preference Shareholders voting together.

CPE – In respect of the special resolution approving the Amalgamation Agreement, two-thirds of the votes cast by the Common Shareholders voting thereon, subject to the condition of approval by a majority of the votes cast by shareholders of CPE other than CPL, and the separate class vote of the holder of the Cumulative Redeemable Convertible Preferred Shares, Series B (which has indicated its intention to approve).

Directors and executive officers (and their affiliates) of CPL and of CPE hold or are deemed under regulations of the SEC to hold 26,040,903 (11.36%) of the CPL Ordinary and Preference Shares and 2,065,177 (1.33%) of the CPE Common Shares entitled to vote. None of such persons has indicated an intention to vote such shares otherwise than for the merger. See "General Proxy Information – Voting Securities and Principal Holders Thereof" and "Interests of Directors and Officers".

Terms of Merger

CPE and CPS will amalgamate and continue as one corporation. Holders of CPE Common Shares (other than CPL) will receive 1.675 CPL Ordinary Shares for each CPE Common Share (and a cheque instead of any fractional share). CPL will become the holder of all the issued Common Shares of the amalgamated corporation. CPE's Cumulative Redeemable Convertible Preferred Shares, Series B will be retired at the price of $20.562 per share, totalling $102,810,000, plus accrued and unpaid dividends, before implementation of the merger. See "The Merger – Terms of Merger".

An independent committee of CPE directors consisting of Messrs. Galt, Leitch, MacNaughton, Nichol and Southern has concluded that the exchange ratio of 1.675 CPL Ordinary Shares for each CPE Common Share is fair to the CPE minority shareholders. Financial advisers to CPE and to CPL have given opinions that the exchange ratio is fair and reasonable from a financial point of view. See "The Merger – Directors' Approvals, CPE Independent Committee and Fairness Opinions".

All applicable federal, provincial or state regulatory requirements and approvals in connection with the merger have been complied with or obtained.

Reasons for Merger

The reasons for the merger are to facilitate the integration of the businesses and operations and the unification of the managements of CPE and CPL, and to allow for more effective co-ordination and utilization of their financial resources and assets. It is expected that as a result of the merger the Ordinary Shares of CPL will reflect better the value of the assets and earnings of the combined corporations. See "The Merger – Reasons for Merger".

The Boards of Directors of CPE and of CPL consider it advantageous to CPE and CPL and their shareholders that the merger proceed and unanimously recommend that shareholders vote for its approval.

Effective Date of Merger

As soon as practicable following the shareholders' meetings of CPL and CPE.

Stock Exchange Listings

Applications are being made to list the additional CPL Ordinary Shares to be issued in the merger on the Montreal, Toronto, Vancouver, New York and London stock exchanges. Application also is being made to list the CPL Ordinary Shares on The Alberta Stock Exchange. The CPE Common Shares will be delisted.

Right of Dissent

Shareholders of CPE have the right to dissent and be paid the fair value of their shares upon compliance with the provisions of section 184 of the Canada Business Corporations Act. Shareholders of CPL do not have this right. See "The Merger – Right of Dissent".

Income Tax Consequences

Canada – For Canadian federal income tax purposes, CPE Common Shareholders holding their shares as capital property will be entitled to a tax-free "rollover" in respect of the receipt of CPL Ordinary Shares for their CPE Common Shares. In respect of cash received instead of a fractional share, shareholders may recognize a capital gain or loss or reduce the adjusted cost base of their shares.

United States – Although there are no controlling precedents, for United States federal income tax purposes, subject to certain conditions, CPE Common Shareholders should recognize no gain or loss in respect of the receipt of CPL Ordinary Shares for their CPE Common Shares, except in respect of any cash received instead of a fractional share.

United Kingdom – For United Kingdom tax purposes, subject to certain conditions, CPE Common Shareholders holding their shares as a capital asset will not realise any chargeable gain (or allowable loss) in respect of the receipt of CPL Ordinary Shares for their CPE Common Shares, except in respect of any cash received instead of a fractional share.

See "The Merger – Income Tax Consequences".

Termination of Amalgamation

The Amalgamation Agreement may be terminated by the directors of CPE or of CPS before the amalgamation becomes effective notwithstanding approval by shareholders. This could occur if directors determined that the amalgamation were no longer in the best interests of the corporation or its shareholders. See "The Merger – Terms of Merger".

Canadian Pacific Limited

CPL directly and through subsidiaries carries on transportation and related operations consisting of railways, airlines, hotels, ocean shipping, trucking, telecommunications and certain ancillary activities. CPL holds approximately 69.6% of the issued CPE Common Shares. See "Canadian Pacific Limited".

Canadian Pacific Enterprises Limited

CPE is a diversified holding corporation with interests in oil and gas, mines and minerals, forest products, iron and steel, real estate, agriproducts and other businesses. See "Canadian Pacific Enterprises Limited".

Recent Developments

For information concerning recent trends in earnings and certain recent developments which should be considered in connection with the proposed merger, see "Recent Developments".

Recent Share Market Prices

Set forth below are the closing sale prices of the CPL Ordinary Shares (on an historical basis) and the CPE Common Shares (both on an historical and an equivalent per share basis) on The Toronto Stock Exchange on September 6, 1985, the last trading day preceding the public announcement of the proposed merger, and on October 15, 1985, the last trading day preceding the date of this Joint Proxy Statement. See "Share Market Prices".

	CPL Ordinary Shares	CPE Common Shares	CPE Common Shares Pro Forma (1)
September 6, 1985	$17.750	$26.375	$29.731
October 15, 1985	$16.000	$26.250	$26.800

(1) Based upon the exchange ratio of 1.675 CPL Ordinary Shares for each CPE Common Share.

Summary Financial Information

The following tables present selected historical and pro forma financial information for CPL and CPE. The tables should be read in conjunction with the historical financial statements and notes thereto and pro forma financial information included elsewhere or incorporated by reference in this Joint Proxy Statement.

	CPL					
	Six months ended June 30, 1985 (Unaudited)	Year ended December 31				
		1984	1983	1982	1981	1980
	(in thousands – except per share amounts)					
Historical						
Revenues	$ 7,570,497	$14,635,095	$12,759,297	$12,301,895	$12,336,266	$ 9,984,546
Net income – Canadian GAAP	141,941	376,903	143,592	188,294	485,579	583,157
– United States GAAP	117,753	340,504	98,716	96,442	487,287	576,558
Earnings per Ordinary Share						
– Canadian GAAP	0.66	1.75	0.66	0.87	2.25	2.70
– United States GAAP	0.55	1.58	0.45	0.44	2.26	2.67
Total assets	20,149,398	18,796,122	17,601,949	17,273,034	16,330,185	13,038,501
Long term debt, debenture stock and redeemable preferred shares	5,989,811	5,486,298	5,417,908	5,442,094	4,670,959	2,997,035
Cash dividends declared per Ordinary Share						
– Canadian dollars	0.24	0.47	0.47	0.55	0.63	0.62
– United States dollars	0.17	0.36	0.38	0.44	0.53	0.53
Book value per Ordinary Share	21.45	20.92	18.72	18.43	18.13	16.22
Number of Ordinary Shares	214,987	214,987	214,987	214,987	214,987	214,987
Pro Forma (Unaudited)						
Earnings per Ordinary Share						
– Canadian GAAP	$ 0.60	$ 1.53				
– United States GAAP	0.49	1.37				
Book value per Ordinary Share	20.45					
Number of Ordinary Shares	293,941	293,941				

Summary Financial Information (continued)

	CPE					
	Six months ended June 30, 1985 (Unaudited)	Year ended December 31				
		1984	1983	1982	1981	1980
	(in thousands – except per share amounts)					
Historical						
Revenues	$ 4,985,549	$ 9,856,057	$ 8,652,239	$ 8,494,663	$ 8,558,759	$ 6,659,250
Net income – Canadian GAAP	139,684	307,126	94,301	150,144	404,600	491,257
– United States GAAP	118,217	276,826	42,001	64,244	394,900	476,057
Earnings per Common Share						
– Canadian GAAP	0.88	1.96	0.61	1.05	2.87	3.63
– United States GAAP	0.74	1.76	0.27	0.45	2.80	3.52
Total assets	12,555,027	12,357,397	11,933,895	12,017,478	11,241,120	8,496,146
Long term debt and redeemable preferred shares	3,984,560	3,984,489	3,933,127	3,920,541	3,309,945	1,831,381
Cash dividends declared per Common Share						
– Canadian dollars	0.40	0.80	0.80	0.96	1.12	1.005
– United States dollars	0.29	0.61	0.65	0.77	0.94	0.86
Book value per Common Share	21.13	20.57	19.27	19.44	19.53	17.76
Number of Common Shares						
– actual	154,797	154,506	153,941	153,474	141,356	140,661
– average	154,701	154,262	153,736	142,990	140,972	135,335

Notes:

1. Book value and earnings per Ordinary Share, dividend data and number of shares reflect the three-for-one share split of CPL's Ordinary Shares effective May 17, 1985.
2. A discussion of the differences between generally accepted accounting principles (GAAP) in Canada and the United States appears on page 40 of CPL's 1984 Annual Report to Shareholders and on page 35 of CPE's 1984 Annual Report to Shareholders incorporated by reference in this Joint Proxy Statement. The effect of differences between Canadian and United States GAAP on per share book values is not significant.
3. Included in 1983 net income for CPE is an extraordinary item of $31,435,000 (equivalent to $0.20 per Common Share) representing the gain on the sale of Canadian Pacific Hotels Limited to Canadian Pacific Air Lines, Limited, a wholly owned subsidiary of CPL, effective December 1, 1983.

General Proxy Information

Approximate date proxy material first sent to shareholders:
October 28, 1985.

Solicitation of Proxies

This Joint Proxy Statement is furnished in connection with the solicitation by the managements of Canadian Pacific Limited (CPL) and Canadian Pacific Enterprises Limited (CPE) of proxies for use at the special meetings of shareholders of CPL and CPE and at any adjournments thereof. The CPL meeting will be held on Thursday, December 5, 1985 at 10:00 a.m. (Montreal time) in Le Château Champlain, Place du Canada, Montreal, Quebec. The CPE meeting will be held on Friday, December 6, 1985 at 11:00 a.m. (Calgary time) in The Palliser Hotel, 133 – 9th Avenue South West, Calgary, Alberta.

In the case of CPL, the purposes of the meeting are: to consider and, if thought advisable, to approve the issue of CPL Ordinary Shares in connection with a proposed merger of CPE and CPL pursuant to an Amalgamation Agreement dated October 16, 1985 among CPE, CPL and CPS Limited (CPS, a new wholly owned subsidiary of CPL); to consider and, if thought advisable, to pass a special resolution to amend CPL's articles to increase the maximum number of its directors from 24 to 30; and to elect five additional directors of CPL effective upon implementation of the merger.

In the case of CPE, the purpose of the meeting is to consider and, if thought advisable, to pass a special resolution approving the Amalgamation Agreement.

Each of CPL and CPE will bear its own cost of solicitation. In both cases, the solicitation will be primarily by mail. However, certain officers and employees may also solicit proxies by telephone or in person. CPE will engage Dominion Securities Pitfield Limited to solicit proxies from shareholders by mail, by telephone or in person in Canada and elsewhere (other than the United States) at a cost to CPE of $25 per proxy to be voted for the merger, plus out-of-pocket expenses. CPL and CPE have engaged Hill and Knowlton, Inc. to solicit proxies from shareholders by mail, by telephone or in person in the United States at a cost of U.S. $10,000 to CPL and U.S. $6,000 to CPE, plus out-of-pocket expenses.

Appointment of Proxyholders and Revocation of Proxies

A vote at all meetings of shareholders of CPL and of CPE may be given in person or by proxy whether or not the proxyholder is a shareholder. The time for the deposit of proxies is specified in the notice of meeting.

A shareholder giving a proxy has the right under subsection 142(4) of the Canada Business Corporations Act (CBCA) to revoke the proxy: by instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing and deposited either at the registered office of CPL or CPE, as the case may be, at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof; or in any other manner permitted by law.

Voting Shares as Specified

Shares represented by properly executed proxies in favour of the persons designated in the printed portion of the enclosed form of proxy will be voted or withheld from voting on any ballot that may be called for and, where the shareholder specifies a choice with respect to any matter to be acted upon, such shares will be voted in accordance with any specification so made. **In the absence of such specification, such shares will be voted: in the case of CPL, for the approval of the issue of Ordinary Shares in connection with the proposed merger, for the special resolution to amend CPL's articles to increase the maximum number of directors, and for the election of additional directors; and in the case of CPE, for the special resolution approving the Amalgamation Agreement.**

Exercise of Discretion by Proxyholders

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this Joint Proxy Statement, the managements of CPL and CPE know of no such amendments, variations or other matters to come before the respective meetings.

Voting Securities and Principal Holders Thereof

CPL – On October 16, 1985, there were outstanding 215,179,384 Ordinary Shares, 11,539,191 Canadian Dollar Preference Shares and 2,594,769 Sterling Preference Shares, the holders of which are entitled to one vote for each share held. The holders of both the Ordinary and the Preference Shares are entitled to vote together at the meeting, giving a total entitlement of 229,313,344 votes.

CPE – On October 16, 1985, there were outstanding 155,078,813 Common Shares, each carrying one vote. In addition, there were outstanding 5,000,000 Cumulative Redeemable Convertible Preferred Shares, Series B, all of which are held by a Canadian chartered bank, which is entitled to one vote per share separately as a class in respect of the Amalgamation Agreement.

The Boards of Directors of CPL and CPE have fixed the close of business on October 25, 1985, as the record date for the purpose of determining shareholders entitled to receive notice of meeting but the failure of any shareholder to receive a notice of meeting of shareholders does not deprive the shareholder of a vote at the meeting. If a person has acquired shares after the record date, that person is entitled to vote those shares at the meeting upon producing properly endorsed share certificates, or otherwise establishing share ownership, and demanding the inclusion of his or her name in the list of shareholders not later than 10 days before the date of the meeting.

For information respecting principal holders of voting securities see, in the case of CPL, its Management Proxy Statement dated March 11, 1985 pages 2 and 3 as modified by the information in Item 5 of its Quarterly Report on Form 10-Q for the quarter ended June 30, 1985 and, in the case of CPE, its Proxy Statement dated March 1, 1985 page 2, which information is incorporated herein by reference. See also Schedule VII to this Joint Proxy Statement.

The Merger

The proposed merger of CPE and CPL initially was approved in principle by the Boards of Directors of CPL and CPE on September 8, 1985. The Boards gave final approval to the merger on October 16 , 1985, directing submission to shareholders for their approval.

Reasons for Merger

The reasons for the merger are to facilitate the integration of the businesses and operations and the unification of the managements of CPE and CPL, and to allow for more effective co-ordination and utilization of their financial resources and assets.

At present, CPE is a holding corporation, with interests in various resource, manufacturing and real estate businesses. CPL is the parent corporation, with approximately 69.6% of the CPE Common Shares and interests in CP Rail and other transportation businesses. It is expected that as a result of the merger the Ordinary Shares of CPL will reflect better the value of the assets and earnings of the combined corporations.

Shares of CPE were first offered to the public in 1967. At that time, it was determined that the development of Canadian Pacific's resource holdings could best be achieved with additional equity participation in the resource holding company. In the period that followed, the process proved to be a success and, at the same time, Canadian Pacific's transportation businesses were enhanced and expanded. Now, it is apparent that the ability to pursue further growth prospects and future investment opportunities can be improved by the merger.

The Boards of Directors of CPE and CPL consider it advantageous to CPE and CPL and their shareholders that the merger proceed and unanimously recommend that shareholders vote for its approval.

Terms of Merger

The merger would be effected in accordance with the Amalgamation Agreement among CPE, CPL and CPS, a wholly owned subsidiary of CPL. The text of the Amalgamation Agreement, which is attached as Schedule I to this Joint Proxy Statement, is incorporated herein by reference.

Under the Amalgamation Agreement, CPE and CPS will amalgamate pursuant to the CBCA and continue as one corporation under the name "Canadian Pacific Enterprises Limited", with its registered office in Calgary, Alberta. The property of each of CPE and CPS will continue to be the property of the amalgamated corporation, which will continue to be liable for the obligations of each of CPE and CPS. The amalgamation will become effective on the date shown in the certificate of amalgamation issued pursuant to the CBCA in respect of articles of amalgamation sent to the Director under the CBCA. This is expected to occur as soon as practicable after the meetings of shareholders. Before implementation of the amalgamation, the CPE Cumulative Redeemable Convertible Preferred Shares, Series B will be retired at the price of $20.562 per share, totalling $102,810,000, plus accrued and unpaid dividends.

On the effective date of the amalgamation:

(a) The holders of the CPE Common Shares (other than CPL) will receive 1.675 CPL Ordinary Shares for each CPE Common Share, which will be cancelled. This will result in the issue of up to 78,954,634 additional CPL Ordinary Shares, which will then represent about 26.84% of the total issued CPL Ordinary Shares.

(b) The CPE Common Shares and CPS Common Shares held by CPL will be converted into Common Shares of the amalgamated corporation. In consideration for the issue by CPL of its Ordinary Shares, the amalgamated corporation will issue to CPL additional Common Shares of the amalgamated corporation. The result will be that all the issued Common Shares of the amalgamated corporation will be held by CPL.

Instead of the issue of fractional CPL Ordinary Shares, holders of CPE Common Shares will be paid by cheque in respect of fractions based on the closing sale price of CPL Ordinary Shares on The Toronto Stock Exchange on the last trading day preceding the effective date. Shareholders outside Canada will be paid in United States funds converted on the basis of the noon buying rate reported by the Federal Reserve Bank of New York on the effective date.

By structuring the merger as an amalgamation of CPE with a wholly owned subsidiary of CPL, two distinct registered offices will be maintained, one in Montreal and one in Calgary. Having registered offices in these two cities will continue to reflect the wide geographic spread of Canadian Pacific's interests throughout Canada. In addition, structured in this fashion, the merger will avoid the imposition of United States federal income tax under the Foreign Investment in Real Property Tax Act of the United States in respect of any United States real property interests of CPE and CPL, assuming the merger is effected in 1985. It also provides CPE shareholders resident in the United Kingdom with a type of transaction which could qualify for tax-free rollover treatment under the Capital Gains Tax Act of the United Kingdom.

Directors' Approvals, CPE Independent Committee and Fairness Opinions

Studies by management of the possibility of a merger began in April, 1985. In the course of the studies, Wood Gundy Inc. and Burns Fry Limited, nationally recognized Canadian investment dealers, were retained to act as financial advisers to CPL. The Boards of Directors of CPL and CPE were informed on August 12 and August 13 respectively that the studies were being conducted.

In light of the relationship between CPE and CPL, an independent committee of the CPE Board was formed, consisting of Messrs. T.M. Galt, C.M. Leitch, Q.C., A.A. MacNaughton, J.L. Nichol, O.C., and R.D. Southern, who are not otherwise associated with CPL as directors or officers. In preparing to be in a position to consider a merger, the committee retained Dominion Securities Pitfield Limited (DSP), a nationally recognized Canadian investment dealer, to act as financial advisers to the committee and the Board of Directors of CPE. During the period that followed, the committee met with DSP on a number of occasions to discuss the merger possibility. The members of the independent committee are to be nominated for election as directors of CPL effective upon implementation of the merger.

The merger initially was approved in principle by the CPL Board at a meeting on September 8, 1985. In giving its approval, the Board considered a number of factors, including reasons for the merger, the terms and conditions of the proposed amalgamation agreement and certain financial analysis relevant to the merger and the determination of a share exchange ratio. The Board concluded that the merger was in the best interests of CPL and its shareholders and determined the exchange ratio of 1.675 CPL Ordinary Shares for each CPE Common Share.

The CPL Board then requested Wood Gundy and Burns Fry to provide an opinion as to the share exchange ratio. In reaching their opinion, Wood Gundy and Burns Fry considered certain publicly available information concerning CPL, CPE and their subsidiaries, published stock market trading data relating to their shares, internal information relating to their businesses and operations, historical, current and forecasted financial information concerning CPL and CPE, and published stock market and other data of a general nature relating to the industries in which CPL and CPE and their subsidiaries operate. In addition, Wood Gundy and Burns Fry held discussions with certain members of senior management of CPL and CPE concerning their respective operations. They also considered for the shareholders of each of CPL and CPE the effect of the merger on their respective ownership interests in the underlying assets of the corporations and on their respective positions on a per share basis with respect to earnings, book value and dividends. Wood Gundy and Burns Fry concluded that the terms of the proposed merger are fair and reasonable from a financial point of view to the CPL shareholders.

The merger proposal was submitted to the CPE Board at a meeting held on September 8, 1985. The CPE Board referred the matter to the independent committee, which considered the fairness of the proposed share exchange ratio. Following review of the exchange ratio, during which the committee conferred with DSP, the committee concluded that the ratio is fair to the CPE minority shareholders.

The independent committee requested DSP to provide an opinion as to the share exchange ratio. In arriving at its opinion, DSP considered historic and current relationships between the stock market prices and trading patterns of CPL and CPE, other general stock market data and indices including market data pertaining to major subsidiaries of CPE, certain publicly available information on CPE, CPL and their subsidiaries, certain internal information concerning the businesses, operations and prospects of CPE, CPL and their subsidiaries, earnings and other financial forecasts provided by CPE and CPL, and other information of a public nature or supplied by CPE and CPL considered necessary or appropriate in the circumstances. In addition, DSP conducted interviews with senior management of CPE, CPL and certain of their major subsidiaries concerning their respective businesses, financial condition, assets, plans and business activities. DSP also considered the significant degree to which holders of CPE Common Shares would maintain on a pro forma basis their existing interest in the CPE entities and that the dividend income per equivalent CPE Common Share would be maintained under the share exchange ratio. DSP concluded that the ratio is fair and reasonable from a financial point of view to the CPE minority shareholders. After receiving the report of the independent committee and DSP's opinion, the CPE Board approved the merger in principle.

Final approval of the merger was given by the Boards of Directors of CPL and CPE on October 16, 1985. The CPL Board requested Wood Gundy and Burns Fry and the CPE Board requested DSP to provide further opinions as of that date. Copies of these opinions are attached as Schedules II and III to this Joint Proxy Statement.

Wood Gundy and Burns Fry will be paid by CPL fees of $3,500,000 for their advisory services, $1,166,666 of which has been paid and the balance of which becomes payable on the effective date of the merger. During the past two years, Wood Gundy and Burns Fry have underwritten the sale of securities and furnished assistance in the placing of commercial paper of and provided advisory services to CPL, CPE and certain CPE subsidiaries, for which Wood Gundy and Burns Fry have received $3,656,011 and $606,938, respectively. DSP will be paid by CPE a fee of $2,000,000 for its advisory services, $666,667 of which has been paid and the balance of which becomes payable on the effective date of the merger. During the past two years, DSP has underwritten the sale of securities and furnished assistance in the placing of commercial paper of and provided advisory services to certain CPE subsidiaries and CPL, for which DSP has received $2,642,535.

Shareholder Approvals

CPE – In order for the merger to proceed, the special resolution approving the Amalgamation Agreement must be passed by not less than two-thirds of the votes cast by the holders of the CPE Common Shares voting in respect of the resolution. With CPL holding approximately 69.6% of the CPE Common Shares, this vote is assured. For this reason, the Amalgamation Agreement is conditional on approval by a majority of the votes cast by such holders other than CPL voting in respect of the resolution. The special resolution also must be passed by separate class vote of the holder of CPE's Cumulative Redeemable Convertible Preferred Shares, Series B. The holder of these shares has indicated its intention to approve the special resolution. The text of the proposed special resolution is attached as Schedule IV to this Joint Proxy Statement.

CPL – The Amalgamation Agreement also is conditional on the approval of the issue of the CPL Ordinary Shares pursuant thereto by a majority of the votes cast by the Ordinary and Preference Shareholders voting together. This approval is called for by policies of stock exchanges on which CPL's shares are listed. If the approval is not obtained, the Amalgamation Agreement will not be implemented and the Ordinary Shares will not be issued pursuant thereto. The New York Stock Exchange requires that the total votes cast represent over 50% of the shares entitled to vote. In the unlikely event that the total votes cast were less than this percentage but with a majority approving the share issue, CPL and CPE would proceed with the merger. CPL would exert every reasonable effort to persuade the Exchange not to delist CPL's Ordinary Shares. In the unlikely event of such delisting, it is believed that other markets in the United States would be available for CPL's Ordinary Shares.

In addition, the CPL shareholders are being asked to pass a special resolution to amend CPL's articles to increase the maximum number of its directors to 30, although this is not a condition of the merger. The text of this proposed special resolution is attached as Schedule V to this Joint Proxy Statement. Under CPL's articles, at present the minimum number of directors is three and the maximum is 24. The actual number of directors is 23 as fixed by the Board in accordance with the General By-law of CPL. Subject to the amendment of the articles, the number of CPL directors will be fixed at 28 upon implementation of the merger. This is to permit the election of additional directors to the CPL Board as set forth below with a view to the benefits of their continued contributions to the affairs of Canadian Pacific. To become effective, the special resolution must be passed by a majority of not less than two-thirds of the votes cast by the Ordinary and Preference Shareholders voting together in respect of the resolution.

If the special resolution to increase the maximum number of directors is passed, Messrs. T. M. Galt, C. M. Leitch, Q.C., A. A. MacNaughton, J. L. Nichol, O.C., and R. D. Southern, who now are directors of CPE, will be nominated for election as directors of CPL effective upon implementation of the merger. Mr. Galt is Chairman and Chief Executive Officer of Sun Life Assurance Company of Canada, Mr. Leitch is a partner of the Macleod Dixon law firm, Mr. MacNaughton is Chairman and Chief Executive Officer of Genstar Corporation, Mr. Nichol is a corporate director, and Mr. Southern is Deputy Chairman and Chief Executive Officer of ATCO Ltd. The proposed terms of office of Messrs. Leitch and Nichol would end at the close of the first annual meeting of shareholders following their election, the terms of Messrs. Galt and MacNaughton would end at the close of the second such meeting and the term of Mr. Southern would end at the close of the third such meeting. If any of the nominees is unable or unwilling to serve, the persons named in the enclosed form of CPL proxy intend not to vote for a substitute nominee. The election requires a majority of the votes cast by the Ordinary and Preference Shareholders voting together. See Schedule VII to this Joint Proxy Statement for information relating, among other things, to the proposed nominees and to the directors of CPL continuing in office, executive compensation and certain transactions involving directors. For additional information respecting the proposed nominees, see CPE's Proxy Statement dated March 1, 1985 pages 4 through 7, which information is incorporated herein by reference, and "Interests of Directors and Officers". For additional information respecting CPL directors continuing in office, remuneration of directors and officers of CPL and certain transactions involving CPL, see CPL's Management Proxy Statement dated March 11, 1985 pages 4 through 13, which information is incorporated herein by reference.

The Amalgamation Agreement provides that it may be terminated by the directors of either of the amalgamating corporations at any time before the issue of a certificate of amalgamation, notwithstanding approval by shareholders. This could occur if directors determined that the amalgamation were no longer in the best interests of the corporation or its shareholders for reasons which could include a material change in the business or affairs of any of the parties to the Amalgamation Agreement, a change in the anticipated tax consequences of the amalgamation, or rights of dissent being exercised by CPE shareholders to a degree which would be unduly detrimental.

Income Tax Consequences

The following discussion of tax consequences is of a general nature and does not constitute advice to any particular shareholder. Shareholders should consult their own tax advisers. The discussion does not cover taxes of countries other than Canada, the United States or the United Kingdom, nor does it deal generally with provincial, state or local taxes. It also is subject to possible statutory or regulatory changes.

Canada

Tilley, Carson & Findlay, counsel to CPL, and Macleod Dixon, counsel to CPE, have advised that under the Income Tax Act of Canada, a CPE shareholder who receives CPL Ordinary Shares for CPE Common Shares held as capital property will not realize any capital gain or loss as a result of the merger. The cost to the shareholder of such CPL Ordinary Shares will be the same as the adjusted cost base of such CPE Common Shares immediately before the merger. The "tax-free zone" rules respecting CPE Common Shares acquired or deemed to have been acquired before 1972 will apply to the CPL Ordinary Shares to the same extent as those rules would have applied to the CPE Common Shares.

Under administrative practice of the Department of National Revenue, a CPE shareholder who receives at least one CPL Ordinary Share and who also receives cash instead of a fraction of a CPL Ordinary Share for CPE Common Shares held as capital property may treat the cash as proceeds of a partial disposition of the CPE Common Shares giving rise to a capital gain or loss, or may ignore any such capital gain or loss and reduce the cost base of the CPL Ordinary Shares by the amount of the cash.

An advance ruling has been obtained from the Department of National Revenue confirming the above consequences. Cash paid instead of any fractional share to non-residents of Canada will not be subject to Canadian withholding tax. The merger will not have any Canadian federal income tax consequences to CPL shareholders.

A. S. Kingsmill, Q.C., a director of CPL, is a partner of Tilley, Carson & Findlay. Partners and associates of that firm engaged in providing services in connection with the merger own 6,015 CPL Ordinary Shares and 2,638 CPE Common Shares. C. M. Leitch, Q.C., a director of CPE, is a partner of Macleod Dixon.

A ruling has been requested from the Quebec Minister of Revenue confirming that the merger will not affect shareholders who hold CPE Common Shares in a Quebec Stock Savings Plan (QSSP) at the time of the merger except in respect of a CPE Common Share for which cash is received, and that CPE Common Shares that are held in a QSSP may be replaced with CPL Ordinary Shares provided that the CPL Ordinary Share certificate is transmitted directly to the dealer having custody of the QSSP account.

United States

As described above, the amalgamation of CPE and CPS will be effected under the applicable provisions of the CBCA. Because of certain technical differences between Canadian and United States corporate law, there are no controlling precedents for applying the complex provisions of the United States Internal Revenue Code to the proposed amalgamation. Nonetheless, Sidley & Austin, United States counsel for CPL, and White & Case, United States counsel for CPE, have advised, in their respective opinions, that, subject to the discussions below pertaining to the "Section 367(b) Notice" and dissenters' rights, the amalgamation should be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, with the consequences for United States federal income tax purposes that:

(a) A United States shareholder of CPE will recognize no gain or loss upon the exchange of CPE Common Shares for CPL Ordinary Shares, except to the extent that gain or loss is recognized in respect of any cash received instead of a fractional share.

(b) The aggregate basis of the CPL Ordinary Shares received by a United States shareholder of CPE in the amalgamation (including any basis allocated to a fractional share interest) will equal the aggregate basis of the CPE Common Shares exchanged therefor.

(c) The holding period of the CPL Ordinary Shares (including any fractional share interest) received by a United States shareholder of CPE in the amalgamation will include the holding period of the CPE Common Shares exchanged therefor if such shares were capital assets in the hands of the exchanging shareholder.

(d) Cash received instead of a fractional CPL Ordinary Share will be treated as received in payment therefor. A United States shareholder will recognize gain or loss equal to the difference between the cash received and such shareholder's basis in the fractional share, and such gain or loss will be capital gain or loss if the exchanged share was a capital asset in the hands of the shareholder.

For United States federal income tax purposes, the amalgamation will not constitute a taxable event for any United States shareholder of CPL.

For the purposes of this discussion, a United States shareholder includes a United States citizen or resident, a United States corporation or other person who would be subject to United States federal income tax on the sale of such person's shares.

Temporary Treasury Regulation Section 7.367(b)-1(c) requires that a notice (the "Section 367(b) Notice") be filed by each United States shareholder of CPE who is required to file a United States federal income tax return for the taxable year in which the amalgamation occurs, if the shareholder realizes any gain on the exchange of CPE Common Shares for CPL Ordinary Shares, even though no gain is recognized on such exchange. The Section 367(b) Notice must be filed on or before the last date for filing (including extensions) the federal income tax return for the shareholder's taxable year in which the amalgamation occurs, either at the Internal Revenue Service Center where the shareholder files a return or with the District Director having jurisdiction over such return. If a shareholder required to file the Section 367(b) Notice does not properly file such notice, the Internal Revenue Service may seek to treat the exchange of CPE Common Shares for CPL Ordinary Shares as a taxable transaction with respect to such shareholder. CPL will provide a form of Section 367(b) Notice to each CPE shareholder of record with a United States address who receives CPL Ordinary Shares in the amalgamation.

The advice of Sidley & Austin and White & Case is based upon certain representations by CPL and CPE with respect to the business, assets and shareholders of CPL and CPE, including (i) the source of the cash to be used by CPE to retire its Cumulative Redeemable Convertible Preferred Shares, Series B, and to satisfy any obligations to the public shareholders of CPE who shall exercise their right of dissent and (ii) that none of CPL, CPE or the amalgamated corporation will pay any stock transfer taxes imposed on the public shareholders of CPE in connection with the amalgamation. In addition, in rendering such advice, Sidley & Austin and White & Case have relied upon certain advice as to matters of Canadian corporate law from CPL's and CPE's Canadian counsel and have assumed that: no United States shareholder owns, directly or indirectly, actually or constructively, 10% or more of the outstanding Ordinary Shares of CPL or the outstanding Common Shares of CPE; the public shareholders of CPE have no plan to sell or otherwise dispose of the CPL Ordinary Shares to be received in the amalgamation; and the amounts paid in respect of the exercise of dissenters' rights, the retirement of CPE's Cumulative Redeemable Convertible Preferred Shares, Series B, and CPE's costs and expenses in connection with the amalgamation will be less than 10% of the net assets of CPE and 30% of its gross assets, both determined on a fair market value basis.

United Kingdom

Slaughter and May, United Kingdom counsel to CPL, and Norton, Rose, Botterell & Roche, United Kingdom counsel to CPE, have advised that on the basis of the current law of the United Kingdom, the merger will constitute a "scheme of amalgamation" for the purposes of United Kingdom capital gains tax. Accordingly, a person holding CPE Common Shares as a capital asset who, together with his associates (if any), holds not more than 5% of the issued Common Shares of CPE will not effect a disposal as a result of receiving CPL Ordinary Shares under the merger. Such a shareholder will not, therefore, realise any chargeable gain (or allowable loss) by virtue of the merger (except possibly to a minimal extent in respect of cash received instead of a fraction of a CPL Ordinary Share). The Ordinary Shares of CPL which are issued to the shareholder will be treated for capital gains tax purposes as if they were the same asset as his former holding of Common Shares in CPE, acquired as those Common Shares were acquired.

The advice of Slaughter and May and Norton, Rose, Botterell & Roche is based on the assumption that, if any CPE shareholders exercise their right to dissent, the number of CPE Common Shares held by those shareholders will represent no more than an insignificant proportion of the total issued CPE Common Shares prior to the merger. Otherwise, the Inland Revenue may regard the merger as not constituting a "scheme of amalgamation" for the purposes of United Kingdom capital gains tax, the effect of which would be that any holder of CPE Common Shares who receives CPL Ordinary Shares under the merger might realise a chargeable gain (or allowable loss) by virtue of the merger being carried out.

The merger will have no United Kingdom capital gains tax consequences in respect of a person's holding of CPL shares.

Right of Dissent

Under section 184 of the CBCA, shareholders of CPE have the right to dissent in respect of the special resolution approving the Amalgamation Agreement. A shareholder who complies with that section is entitled, when the amalgamation becomes effective, to be paid the fair value of his shares, determined as of the close of business on the day before the special resolution is adopted. A dissenting shareholder may only claim under the section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder. Shareholders of CPL do not have the right to dissent under section 184 in respect of the merger because CPL is not amalgamating.

To comply with section 184, a dissenting shareholder must: (a) send to CPE, at or before the Special Meeting of Shareholders of CPE, a written objection to the special resolution; (b) within 20 days after receiving notice from CPE or the amalgamated corporation that the special resolution has been adopted, or if such notice is not received, within 20 days after learning that the special resolution has been adopted, send to the corporation a written notice containing his name and address, the number and class of shares in respect of which he dissents, and a demand for payment of the fair value of such shares; and (c) within 30 days thereafter send the certificates representing the shares to the corporation or its transfer agent. On sending the notice containing the demand for payment, a dissenting shareholder ceases to have any other rights as a shareholder, except where he withdraws his notice before the corporation makes an offer to pay for his shares, where the corporation fails to make such an offer and he withdraws his notice, or where the directors terminate the Amalgamation Agreement, in which case his rights are reinstated.

The sending of a written objection to the special resolution does not deprive a shareholder of his right to vote thereon. A vote against the special resolution or execution of a proxy which is so voted does not in itself constitute a written objection. A vote for the special resolution or execution of a proxy which is so voted could constitute a waiver of the right of dissent. Not voting on the special resolution in person or by proxy does not constitute a waiver of the right of dissent.

The corporation's offer is to be sent not later than seven days after the later of the date on which the amalgamation becomes effective or the day the corporation receives the notice containing the demand for payment. If the corporation fails to make an offer, or if a dissenting shareholder fails to accept an offer, the corporation may, within 50 days after the amalgamation is effective, or within such further period as a court may allow, apply to a court to fix a fair value for the shares. If the corporation fails to apply to a court, a dissenting shareholder may apply to a court for the same purpose within a further period of 20 days or such further period as a court may allow. The application must be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

Reference is made to section 184 of the CBCA, which is attached as Schedule VI to this Joint Proxy Statement, for the complete text of the provisions conferring the right of dissent. Any shareholder desiring to exercise this right should seek legal advice since failure to comply properly with the provisions of the section could prejudice the right.

Exchange of CPE Share Certificates

On the effective date of the merger, holders of CPE Common Shares will become holders of CPL Ordinary Shares without further action on their part. As soon as practicable after that date, a letter of transmittal will be furnished to CPE shareholders for use in exchanging their CPE Common Share certificates for CPL Ordinary Share certificates. On return of a properly completed letter of transmittal with certificates representing the CPE Common Shares, certificates representing the appropriate number of CPL Ordinary Shares will be issued, together with a cheque instead of any fractional share.

Dividend Reinvestment and Share Purchase Plans

Both CPE and CPL have Dividend Reinvestment and Share Purchase Plans. With respect to the CPE plan, the next dividend record date would be December 18, 1985, with a dividend payment date of January 15, 1986. Optional cash payments would have to be received in the 30-day period beginning December 16, 1985 and ending January 14, 1986 to be accepted for investment on the next dividend payment date.

The CPE plan will be terminated when the merger becomes effective. Participants in the CPE plan will be entitled to enrol in the CPL plan and transfer shares held in the CPE plan to the CPL plan, or to receive a CPL share certificate for shares held in the CPE plan together with a cheque instead of any fractional CPL share. All CPE shareholders and all participants in the CPE plan will be furnished as soon as practicable after the merger with a full description of the CPL plan and an authorization form for the purpose of enrolling in the CPL plan if desired.

Under the CPL plan, dividends are reinvested in shares at 100% of market price, as compared with 95% under the CPE plan. Optional cash payments may be made not exceeding $20,000 per calendar year (as compared with $5,000 quarterly under the CPE plan) for purchases to be made on the 28th day of each month or the first business day thereafter (as compared with quarterly on dividend payment dates under the CPE plan).

The next CPL Ordinary Share dividend payment date is expected to be towards the end of January 1986. Under the dividend reinvestment feature of the CPL plan, an authorization form for participation ordinarily must be received by the record date for a particular dividend if reinvestment is to commence with that dividend. However, to accommodate CPE shareholders, where an authorization form is received by the fifth business day preceding the payment date for the January 1986 dividend, reinvestment will commence with that dividend. A participant in the CPE plan not desiring to enrol in the CPL plan will receive a CPL share certificate for shares held in the CPE plan together with a cheque instead of any fractional CPL share if the authorization form is not so received. The participant may obtain the share certificate and cheque earlier after written notice to the Secretary of CPL or of CPE.

Under the share purchase feature of the CPL plan, optional cash payments received before a purchase date will be invested as of the purchase date. The last purchase date in 1985 will be December 30 and the first purchase date in 1986 will be January 28. Optional cash payments received on or after a purchase date will be held for investment on the next purchase date.

Accounting Treatment

CPL will account for the transaction using the purchase method under generally accepted accounting principles. The reported income of CPL will include its additional interest in the results of CPE only from the date of the merger.

CPL Share Capital

CPL's authorized capital consists of an unlimited number of Ordinary Shares, a number of Preference Shares determined on the basis of a formula and 20,381,788 Preferred Shares, all without nominal or par value. As of October 16, 1985, there were issued 215,179,384 Ordinary Shares and 14,133,960 Preference Shares.

Ordinary Shares

Ordinary Shares may be issued in such amounts, at such times, to such persons, for such consideration and for such purposes as the Board of Directors of CPL may from time to time determine. Ordinary Shares have no pre-emptive, redemption or conversion rights. All Ordinary Shares must be issued as fully paid and non-assessable.

The holders of the Ordinary Shares are entitled to one vote per share at any meeting of shareholders of CPL except at separate meetings of or on separate votes by the holders of another class or series of shares. They are entitled to receive any dividend declared by CPL except dividends declared on another class or series of shares. Subject to the rights of the holders of shares of other classes, the holders of the Ordinary Shares would be entitled to receive the remaining property of CPL on dissolution.

Holders of Ordinary Shares do not have cumulative voting rights in the election of directors. Under CPL's by-laws, each director is elected to hold office for a term ending at the close of the third annual meeting of shareholders following his election, unless a term of shorter duration is stated at the time of his election, and the term of office of approximately one-third of the directors expires each year.

Under the CBCA, the rights attached to the Ordinary Shares may be changed with the approval of not less than two-thirds of the votes cast by the Ordinary and Preference shareholders voting together and by the Ordinary shareholders voting separately as a class. Under CPL's articles, no such separate class vote is required to create a new class of shares equal or superior to the Ordinary Shares, to increase the maximum number of authorized shares of any equal or superior class or to effect an exchange, reclassification or cancellation of all or part of the Ordinary Shares. Although a majority of the Ordinary Shares is customarily represented at CPL's meetings of

shareholders, CPL's by-laws provide that a quorum for any meeting of shareholders is at least two persons present in person and together representing not less than 25% of the shares entitled to be voted. Accordingly, depending on the number of Ordinary Shares represented at a shareholders' meeting to consider any change in the rights attached to the Ordinary Shares, it is possible for such rights to be changed with the vote of less than a majority of the issued Ordinary Shares.

The rights of the holders of the CPL Ordinary Shares are not materially different from the rights of the holders of the CPE Common Shares, subject to the different terms of the other classes of shares of CPL and of CPE and the matters set forth in the immediately preceding paragraph, and there is no difference between holding CPL Ordinary Shares and CPE Common Shares for purposes of Canadian, United States or United Kingdom income taxes. No limitation on the rights of non-resident or foreign owners to hold or vote Ordinary Shares is imposed by the articles of CPL or the laws of Canada, except in the case of an acquisition of control of CPL.

Preference Shares

The formula for the authorized number of Preference Shares reflects provisions of CPL's charter prior to its continuance under the CBCA and involves the number of issued Ordinary Shares. The authorized number is such that the amount of preference stock outstanding may equal but shall not exceed at any time one-half the aggregate amount of the ordinary stock then outstanding and that the authorized capital shall be decreased by preference stock surrendered in consideration of preferred shares and cancelled prior to the continuance, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be the equivalent of $1 and £0.33⅓ respectively of preference stock and each Ordinary Share being deemed to be the equivalent of $1.66⅔ of ordinary stock. Preference Shares may be issued for any purpose involving the raising of new capital, the expenditure of which shall have been previously authorized by the shareholders, either in Canadian or United States currency or Sterling money of Great Britain. Of the 14,133,960 issued Preference Shares, there are 11,539,191 Canadian Dollar and 2,594,769 Sterling Preference Shares.

Every Canadian Dollar Preference Share and every Sterling Preference Share gives the same rights as to voting as are given by an Ordinary Share. As to dividends, the Preference Shares take priority over Ordinary Shares up to, but not exceeding 4% per annum, being $0.04 per Canadian Dollar Preference Share and £0.01⅓ per Sterling Preference Share per annum, and cannot receive at any time a dividend at a higher rate than 4% per annum or in excess of these amounts. Dividends on the Preference Shares are not cumulative. The rights of the holders of the Preference Shares on dissolution would be determined on the basis of the provisions applicable to the preference stock of CPL immediately preceding its continuance under the CBCA and in accordance with the provisions applicable to the other classes of shares and for that purpose each Canadian Dollar Preference Share would be deemed to be $1 of preference stock and each Sterling Preference Share would be deemed to be £0.33⅓ of preference stock and the provisions applicable to the Ordinary Shares and Preferred Shares would be deemed to be those applicable to the ordinary stock and preferred shares respectively of CPL immediately preceding the continuance. The original charter of CPL did not contemplate its dissolution.

Preferred Shares

The Preferred Shares may be issued from time to time in one or more series of such numbers of shares and with such rights, privileges, restrictions and conditions attaching thereto as shall be prescribed by the directors of CPL. The Preferred Shares would be entitled to preference over the Ordinary Shares with respect to priority in payment of dividends and might also be given other preferences over the Ordinary Shares as may be fixed in the case of each series. In the event of any reduction of capital of CPL, the holders of the Preferred Shares would be entitled to receive, in priority to any payment of capital to the holders of the Ordinary Shares, an amount equal to their redemption price, but would have no further right to participate in profits or assets. Holders of Preferred Shares would not have any voting rights and would not be entitled to receive notice of or attend any meeting of shareholders except in certain limited circumstances. The rights of the holders of the Preferred Shares on dissolution would be determined on the basis of the provisions applicable to the preferred shares of CPL immediately preceding its continuance under the CBCA.

CPE Common Shares

CPE is authorized to issue an unlimited number of Common Shares and 12,500,000 Preferred Shares, all without nominal or par value. As of October 16, 1985, there were issued 155,078,813 Common Shares and 5,000,000 Cumulative Redeemable Convertible Preferred Shares, Series B.

The holders of CPE Common Shares are entitled to one vote per share at any general meeting of shareholders of CPE, to receive any dividend declared by CPE, other than a dividend declared in respect of the Preferred Shares, and to receive, subject to the rights of the holders of the Preferred Shares, the remaining property of CPE on dissolution. The holders of the CPE Common Shares have no pre-emptive, redemption or conversion rights. All CPE Common Shares must be issued as fully paid and non-assessable.

Stock Exchange Listings

The issued CPE Common Shares are listed on the Alberta, Montreal, Toronto, Vancouver, New York, London and Amsterdam stock exchanges. The issued CPL Ordinary Shares are listed on each of these exchanges, other than Alberta and Amsterdam. In connection with the amalgamation, CPL is making applications for the listing of the additional CPL Ordinary Shares issued to CPE shareholders in the amalgamation on the Montreal, Toronto, Vancouver, New York and London stock exchanges. Application also is being made for the listing of the CPL Ordinary Shares on The Alberta Stock Exchange. The CPE Common Shares will be delisted.

Eligibility for Investment

In the opinion of Tilley, Carson & Findlay, counsel for CPL, and Macleod Dixon, counsel for CPE, at the date hereof the Ordinary Shares of CPL are eligible investments, without resort to the so-called "basket" provisions but subject to general investment provisions, for:

(a) insurance companies registered under the Canadian and British Insurance Companies Act (Canada) or the Foreign Insurance Companies Act (Canada) and for certain insurance companies governed by the Insurance Act (Ontario), the Insurance Act (Alberta) or the Insurance Act (British Columbia);

(b) loan companies regulated under the Loan Companies Act (Canada), trust companies regulated under the Trust Companies Act (Canada), loan corporations and trust companies registered under the Loan and Trust Corporations Act (Ontario) and provincial companies governed by the Trust Companies Act (Alberta);

(c) pension plans registered under the Pension Benefits Standards Act (Canada), An Act respecting supplemental pension plans (Quebec), the Pension Benefits Act (Ontario) and the Pension Benefits Act (Alberta); and

(d) trustees whose investment powers are governed by the Trustee Act (Ontario) and the Trustee Act (Alberta).

In the opinion of such counsel, the provisions of An Act respecting insurance (Quebec) would not preclude the investment by an insurer in the Ordinary Shares, but subject to the general investment provisions of that Act. In the opinion of such counsel, such Ordinary Shares also are qualified investments for trusts governed by registered retirement savings plans, deferred profit sharing plans and registered retirement income funds under the Income Tax Act (Canada).

Canadian Pacific Limited

CPL is the parent corporation of the Canadian Pacific group, with approximately 69.6% of CPE's Common Shares. CPL owns and operates CP Rail and has a 55.7% interest in Soo Line Corporation. CPL is a 50% partner in CNCP Telecommunications. Through subsidiaries, it carries on airline, hotel, bulk and container shipping and trucking operations. Detailed information respecting CPL is set forth in its Annual Information Form dated May 1, 1985 and the other documents which accompany this Joint Proxy Statement. CPL's consolidated financial statements for the years ended December 31, 1984 and 1983 and for the periods ended June 30, 1985 and 1984 are contained in its 1984 Annual Report to Shareholders and its Report to Shareholders for the six months ended June 30, 1985 which accompany this Joint Proxy Statement.

The following table sets forth as of June 30, 1985 CPL's existing consolidated capitalization and pro forma consolidated capitalization after giving effect to the retirement of CPE's Cumulative Redeemable Convertible Preferred Shares, Series B and to the merger:

	June 30, 1985 (in thousands) (Unaudited) Historical	Pro Forma
Short term debt	$ 1,382,930	$ 1,382,930
Long term debt	5,819,119	5,819,119
Perpetual 4% Consolidated Debenture Stock	170,692	170,692
Minority shareholders' interest in subsidiary companies	3,057,466	1,976,920
Shareholders' equity		
Preference Shares – 4% non-cumulative		
Authorized – a number determined by a formula		
Issued – 2,561,769 Sterling Preference Shares	4,156	4,156
– 10,713,816 Canadian dollar Preference Shares	10,714	10,714
	14,870	14,870
Ordinary Shares		
Authorized – an unlimited number of shares without nominal or par value		
Issued – 214,986,840 (pro forma 293,941,474) shares	358,311	692,344
Premium on securities	115,310	1,182,722
Other paid-in surplus	162,288	162,288
Foreign currency translation adjustments	281,995	281,995
Retained income	3,694,436	3,692,480
Total shareholders' equity	4,627,210	6,026,699
Total capitalization	$ 15,057,417	$ 15,376,360

The following table presents selected historical financial information for CPL. The table should be read in conjunction with the historical financial statements and notes thereto included elsewhere or incorporated by reference in this Joint Proxy Statement.

	Six months ended June 30, 1985 (Unaudited)	Year ended December 31 1984	1983	1982	1981	1980
	(in thousands – except per share amounts)					
Revenues	$ 7,570,497	$14,635,095	$12,759,297	$12,301,895	$12,336,266	$ 9,984,546
Net income – Canadian GAAP	141,941	376,903	143,592	188,294	485,579	583,157
– United States GAAP	117,753	340,504	98,716	96,442	487,287	576,558
Earnings per Ordinary Share						
– Canadian GAAP	0.66	1.75	0.66	0.87	2.25	2.70
– United States GAAP	0.55	1.58	0.45	0.44	2.26	2.67
Total assets	20,149,398	18,796,122	17,601,949	17,273,034	16,330,185	13,038,501
Long term debt, debenture stock and redeemable preferred shares	5,989,811	5,486,298	5,417,908	5,442,094	4,670,959	2,997,035
Cash dividends declared per Ordinary Share						
– Canadian dollars	0.24	0.47	0.47	0.55	0.63	0.62
– United States dollars	0.17	0.36	0.38	0.44	0.53	0.53
Book value per Ordinary Share	21.45	20.92	18.72	18.43	18.13	16.22
Number of Ordinary Shares	214,987	214,987	214,987	214,987	214,987	214,987

Notes:

1. Book value and earnings per Ordinary Share, dividend data and number of shares reflect the three-for-one share split of CPL's Ordinary Shares effective May 17, 1985.
2. A discussion of the differences between generally accepted accounting principles (GAAP) in Canada and the United States appears on page 40 of CPL's 1984 Annual Report to Shareholders incorporated by reference in this Joint Proxy Statement. The effect of differences between Canadian and United States GAAP on per share book values is not significant.

Canadian Pacific Enterprises Limited

CPE is a diversified holding corporation with interests in oil and gas, mines and minerals, forest products, iron and steel, real estate, agriproducts and other businesses. Detailed information respecting CPE is set forth in its Annual Information Form dated April 26, 1985 and the other documents which accompany this Joint Proxy Statement. CPE's consolidated financial statements for the years ended December 31, 1984 and 1983 and for the periods ended June 30, 1985 and 1984 are contained in its 1984 Annual Report to Shareholders and its Report to Shareholders for the six months ended June 30, 1985 which accompany this Joint Proxy Statement.

The following table sets forth as of June 30, 1985 CPE's existing consolidated capitalization:

	June 30, 1985 (in thousands) (Unaudited)
Short term debt	$ 843,322
Long term debt	3,884,560
Outside shareholders' interest in subsidiary companies	1,753,996
Shareholders' equity	
Preferred Shares	
Authorized – 12,500,000 shares	
Issued – 5,000,000 Cumulative Redeemable Convertible, Series B	100,000
Common Shares	
Authorized – Unlimited	
Issued – 154,796,597	1,091,480
Paid-in surplus	81,846
Retained income	2,066,080
Foreign currency translation adjustments	31,016
Total shareholders' equity	3,370,422
Total capitalization	$ 9,852,300

The following table presents selected historical financial information for CPE. The table should be read in conjunction with the historical financial statements and notes thereto included elsewhere or incorporated by reference in this Joint Proxy Statement.

	Six months ended June 30, 1985 (Unaudited)	Year ended December 31 1984	1983	1982	1981	1980
	(in thousands – except per share amounts)					
Revenues	$ 4,985,549	$ 9,856,057	$ 8,652,239	$ 8,494,663	$ 8,558,759	$ 6,659,250
Net income – Canadian GAAP	139,684	307,126	94,301	150,144	404,600	491,257
– United States GAAP	118,217	276,826	42,001	64,244	394,900	476,057
Earnings per Common Share						
– Canadian GAAP	0.88	1.96	0.61	1.05	2.87	3.63
– United States GAAP	0.74	1.76	0.27	0.45	2.80	3.52
Total assets	12,555,027	12,357,397	11,933,895	12,017,478	11,241,120	8,496,146
Long term debt and redeemable preferred shares	3,984,560	3,984,489	3,933,127	3,920,541	3,309,945	1,831,381
Cash dividends declared per Common Share						
– Canadian dollars	0.40	0.80	0.80	0.96	1.12	1.005
– United States dollars	0.29	0.61	0.65	0.77	0.94	0.86
Book value per Common Share	21.13	20.57	19.27	19.44	19.53	17.76
Number of Common Shares						
– actual	154,797	154,506	153,941	153,474	141,356	140,661
– average	154,701	154,262	153,736	142,990	140,972	135,335

Notes:

1. A discussion of the differences between generally accepted accounting principles (GAAP) in Canada and the United States appears on page 35 of CPE's 1984 Annual Report to Shareholders incorporated by reference in this Joint Proxy Statement. The effect of differences between Canadian and United States GAAP on per share book values is not significant.
2. Included in 1983 net income for CPE is an extraordinary item of $31,435,000 (equivalent to $0.20 per Common Share) representing the gain on the sale of Canadian Pacific Hotels Limited to Canadian Pacific Air Lines, Limited, a wholly owned subsidiary of CPL, effective December 1, 1983.

Pro Forma Financial Information (Unaudited)

The following pro forma financial information as of June 30, 1985 and for the periods ended June 30, 1985 and December 31, 1984 is based on the consolidated balance sheet as of June 30, 1985 and statements of consolidated income for the periods ended June 30, 1985 and December 31, 1984 of CPL incorporated by reference in this Joint Proxy Statement and has been prepared to reflect the retirement of CPE's Cumulative Redeemable Convertible Preferred Shares, Series B and the merger of CPE and CPL. The pro forma adjustments are described in Note 1. This financial information should be read in conjunction with the financial statements and notes thereto included elsewhere or incorporated by reference in this Joint Proxy Statement.

Canadian Pacific Limited
Pro Forma Condensed Consolidated Balance Sheet
June 30, 1985 (Unaudited)

	Historical	Adjustments (Note 1)	Pro Forma
		(in thousands)	
Assets			
Current assets	$ 4,889,912	$ (103,879)	$ 4,786,033
Properties	14,201,493	422,822	14,624,315
Other assets and deferred charges	1,057,993		1,057,993
	$ 20,149,398	$ 318,943	$ 20,468,341
Liabilities			
Current liabilities	$ 4,065,770	$	$ 4,065,770
Long term obligations and deferred items	8,398,952		8,398,952
Minority shareholders' interest in subsidiary companies	3,057,466	(1,080,546)	1,976,920
Shareholders' equity	4,627,210	1,399,489	6,026,699
	$ 20,149,398	$ 318,943	$ 20,468,341

Pro Forma Condensed Statement of Consolidated Income
(in thousands – except per share amounts)
(Unaudited)

	Six months ended June 30, 1985			Year ended December 31, 1984		
	Historical	Adjustments (Note 1)	Pro Forma	Historical	Adjustments (Note 1)	Pro Forma
Revenues	$7,570,497	$ (4,960)	$7,565,537	$14,635,095	$ (7,702)	$14,627,393
Expenses exclusive of depreciation, depletion & amortization and income taxes	6,612,540		6,612,540	12,686,029		12,686,029
Depreciation, depletion & amortization	489,699	8,418	498,117	875,117	16,636	891,753
Income taxes	234,515	(2,367)	232,148	517,957	(3,573)	514,384
	7,336,754	6,051	7,342,805	14,079,103	13,063	14,092,166
Net income before minority interests	233,743	(11,011)	222,732	555,992	(20,765)	535,227
Minority interests	(91,802)	44,463	(47,339)	(179,089)	95,694	(83,395)
Net income – Canadian GAAP	$ 141,941	$33,452	$ 175,393	$ 376,903	$74,929	$ 451,832
Adjustments to reflect differences between Canadian and United States GAAP (Note 2)	(30,675)	(698)	(31,373)	(45,504)	(1,206)	(46,710)
Less: CPE minority share of adjustments	6,487	(6,487)		9,105	(9,105)	
	(24,188)	(7,185)	(31,373)	(36,399)	(10,311)	(46,710)
Net income – United States GAAP	$ 117,753	$26,267	$ 144,020	$ 340,504	$64,618	$ 405,122
Earnings per Ordinary Share (Note 3)						
Canadian GAAP	$ 0.66		$ 0.60	$ 1.75		$ 1.53
United States GAAP	0.55		0.49	1.58		1.37
Number of Ordinary Shares	214,987		293,941	214,987		293,941

Notes:
1. Pro forma adjustments are made to reflect:
   (a) The retirement, at a premium of $2,810,000, of CPE's Cumulative Redeemable Convertible Preferred Shares, Series B from working capital.
   (b) The issuance of 78,954,634 Ordinary Shares of CPL to the minority common shareholders of CPE.
   (c) The allocation of the purchase cost to the net assets of CPE.
   (d) Additional depreciation and depletion resulting from the increased cost assigned to the net assets of CPE.
   (e) The elimination of the minority common shareholders' interest in CPE.
2. A discussion of the differences between GAAP in Canada and the United States appears on page 40 of CPL's 1984 Annual Report to Shareholders incorporated by reference in this Joint Proxy Statement.
3. Historical earnings per share data reflect the three-for-one share split of CPL's Ordinary Shares effective May 17, 1985. Pro forma earnings per share data also reflect the additional number of Ordinary Shares to be issued by CPL as outlined in Note 1 above.

Comparative Per Share Data

The information presented in this tabulation should be read in conjunction with the pro forma financial information and the separate financial statements of the respective companies and notes thereto included elsewhere or incorporated by reference in this Joint Proxy Statement. Per share information for CPL reflects the three-for-one share split of CPL's Ordinary Shares effective May 17, 1985.

	CPL Per Ordinary Share		CPE Per Common Share		Pro forma earnings after giving effect to the issue of 1.675 CPL Ordinary Shares for each CPE Common Share		Dividend equivalent to cash dividend paid on 1.675 CPL Ordinary Shares
					CPL		
	Earnings	Dividends	Earnings	Dividends	Per Ordinary Share	Per 1.675 Ordinary Shares	
Canadian GAAP							
Year 1984	$1.75	$0.47	$1.96	$0.80	$1.53	$2.57	$0.78
Six months ended June 30, 1985	0.66	0.24	0.88	0.40	0.60	1.00	0.40
United States GAAP							
Year 1984	1.58	0.47	1.76	0.80	1.37	2.30	0.78
Six months ended June 30, 1985	0.55	0.24	0.74	0.40	0.49	0.82	0.40

On June 30, 1985 the book value of each CPL Ordinary Share was $21.45 and the book value of each CPE Common Share was $21.13. The pro forma book value of each CPL Ordinary Share as of such date after reflecting the retirement of CPE's Cumulative Redeemable Convertible Preferred Shares, Series B and the merger of CPE and CPL would be $20.45. The equivalent pro forma book value of each CPE Common Share would be $34.26 based upon the issuance of 1.675 Ordinary Shares of CPL for each Common Share of CPE. The effect of differences between Canadian and United States GAAP on per share book values is not significant.

The average number of shares used for the purposes of the historical calculation for CPL was 214,986,840 for 1984 and 1985 and for CPE was 154,262,083 for 1984 and 154,701,311 for 1985. The number of shares used for purposes of the pro forma calculations was 293,941,474.

Recent Developments

For the six months ended June 30, 1985 CPL's consolidated net income was up from the corresponding period of 1984. Nevertheless, second quarter earnings showed a decline from the comparable quarter of 1984. Since June 30, 1985 the decline has accelerated and earnings for the third quarter will show a significant reduction from the corresponding period last year. Income from CP Rail has been adversely affected by reduced traffic volumes, particularly grain reflecting the drought in the Prairie provinces during the past two summers and weakened export demand. While it is anticipated that traffic volumes will improve in the fourth quarter, income will be lower than in the corresponding period of 1984. Income from CPE in both the third and fourth quarters is expected to be lower than in the corresponding periods of 1984.

For the six months ended June 30, 1985 CPE's consolidated net income was up over the corresponding period of 1984. However, second quarter results decreased compared with both the same quarter of 1984 and the first quarter of 1985. In the period since June 30, 1985, there has been a continuation of the declining earnings trend reflected in the second quarter results, as demand for base metals, pulp and steel has remained weak. In the fourth quarter of 1985, CPE's net income is expected to be lower than in the corresponding period of 1984 due to the inclusion of non-recurring gains in the last quarter of 1984.

The oil and gas industry is now operating under the new energy agreement announced in March 1985 among the governments of Canada and certain provinces. The new agreement, referred to as the "Western Accord", substantially replaced the National Energy Program of October 1980. The Western Accord provided for the deregulation of all oil prices effective June 1, 1985. Such deregulated oil prices which are negotiated between buyers and sellers are susceptible to movements in world oil prices and, therefore, a decline in world prices may result in declining domestic prices. The Western Accord also provided for the development of a more flexible market-oriented pricing mechanism for natural gas on or before November 1, 1985, the phasing out of the Petroleum and Gas Revenue Tax (PGRT) on production found before April 1, 1985, the elimination of PGRT on oil and gas production found after April 1, 1985, and the termination of both the federal and Alberta Petroleum Incentives Programs effective March 31, 1986. In June 1985, the Government of Alberta announced royalty rate reductions, royalty holidays and enhanced tax credits for production from Crown lands in the province. In mid-1985, the Government of Saskatchewan announced that it was extending the royalty/tax holiday for new oil wells to December 31, 1986 and natural gas price incentives to encourage self-sufficiency in that province.

In May 1985, CPL and Canadian National Railway Company (CN) made a joint proposal to purchase Teleglobe Canada from the Government of Canada. Teleglobe Canada provides overseas telecommunications services from Canada. Proposals have been made by other parties as well. Further proposals have been invited and CPL intends to respond, both jointly with CN and by itself.

In July 1985, the Government of Canada released a position paper entitled "Freedom to Move – a framework for transportation reform", outlining revisions to Canada's transportation policy. Key thrusts included more competition, reduced economic regulation and a greater reliance on market forces to result in more competitive prices and a wider range of services. The paper covers railway, air, truck and marine transportation. The Government is receiving public response and has stated its intention to introduce legislation early in 1986. Given the status of the matter, it is too early to assess its impact on CPL.

PanCanadian Petroleum Limited, which is 87% owned by CPE, now follows the full cost method of accounting whereby all costs related to the exploration for and development of conventional oil and natural gas reserves are capitalized on a world-wide cost centre basis. In July 1985, the Canadian Institute of Chartered Accountants issued a Comment Draft on Full Cost Accounting in the Oil and Gas Industry. After consideration of public responses, a guideline or task force report on the application of full cost accounting may be issued before the end of 1985. The Comment Draft indicated that any accounting changes required to comply with the guideline could be implemented prospectively or retroactively. Based upon the accounting principles suggested in the Comment Draft, neither method of application would affect reported cash flows from operations or the underlying value of the assets of CPE. If the proposed changes are adopted retroactively, consolidated retained earnings would be reduced and future reported earnings increased by amounts which, respectively, should not be material to CPE. If prospective application were adopted, earnings in the year of adoption would be reduced by an amount which could be significant in relation to that year's net earnings but should not be material to CPE's overall financial position. Earnings, after the year of adoption, should be higher if this method of application were adopted. It is anticipated that any changes required would be adopted retroactively.

On October 8, 1985, Canadian Pacific Air Lines, Limited (CP Air) announced a merger proposal with Nordair Inc. The transaction is subject to the negotiation of a definitive agreement between the companies and the approval of the Canadian Transport Commission. Under the terms of the proposal, the issued Nordair common shares would be exchanged for CP Air retractable convertible preferred shares. Nordair has routes in Quebec and Ontario. In 1984, Nordair had revenues of $180 million and a net profit of $2.5 million.

Share Market Prices

The following table sets forth the high and low sales prices for each quarterly period within the current and two previous years for the CPL Ordinary Shares and the CPE Common Shares as recorded by The Toronto Stock Exchange:

	CPL(1)		CPE	
	High	Low	High	Low
1985 Fourth Quarter (to October 15)	$16.500	$15.875	$27.000	$26.000
Third Quarter	19.875	16.000	29.625	25.125
Second Quarter	21.750	18.500	30.625	27.500
First Quarter	21.250	16.167	29.250	23.375
1984 Fourth Quarter	16.708	15.000	25.125	22.375
Third Quarter	16.083	12.375	24.250	18.625
Second Quarter	14.875	12.750	22.375	19.125
First Quarter	17.875	14.083	25.500	20.875
1983 Fourth Quarter	17.750	15.542	24.500	20.750
Third Quarter	17.250	14.583	25.875	20.750
Second Quarter	16.667	14.042	25.750	21.500
First Quarter	14.833	11.750	22.750	17.625

(1) Adjusted to reflect the three-for-one subdivision of CPL's Ordinary Shares effective May 17, 1985.

Set forth below are the closing sale prices of the CPL Ordinary Shares (on an historical basis) and the CPE Common Shares (both on an historical and an equivalent per share basis) on The Toronto Stock Exchange on September 6, 1985, the last trading day preceding the public announcement of the proposed merger, and on October 15, 1985, the last trading day preceding the date of this Joint Proxy Statement:

	CPL Ordinary Shares	CPE Common Shares	CPE Common Shares Pro Forma (1)
September 6, 1985	$17.750	$26.375	$29.731
October 15, 1985	$16.000	$26.250	$26.800

(1) Based upon the exchange ratio of 1.675 CPL Ordinary Shares for each CPE Common Share.

Interests of Directors and Officers

The following table sets forth as of October 16, 1985 shareholdings of the directors and officers (and their associates) of CPL and of CPE in CPE and CPL:

	CPE Common Shares	CPL Ordinary Shares
R. S. Allison President, CP Rail	600	—
J. C. Anderson Vice-President Personnel of CPL	1,106	75
M. Norman Anderson Director of CPE	1,000	3,000
Lloyd I. Barber, O.C., Ph.D. Director of CPL	—	6,000

	CPE Common Shares	CPL Ordinary Shares
L. T. Beare Vice-President and General Counsel of CPE	—	—
K. S. Benson Vice-President Administration and Secretary of CPE	—	—
J. D. Bromley Senior Regional Vice-President Pacific, CP Rail	—	—
F. S. Burbidge Director of CPL and CPE, Chairman of CPL	4,894	20,190
James W. Burns Director of CPL	—	2,000
Robert W. Campbell Director of CPL and CPE, Chairman and Chief Executive Officer of CPE	517	6,000
J. P. T. Clough Vice-President Finance and Accounting of CPL	4,951	1,500
D. C. Coleman Vice-President Eastern Region, CP Rail	546	—
R. Colosimo Vice-President Industrial Relations, CP Rail	420	1
D. J. Deegan Secretary of CPL	—	—
Paul Desmarais, O.C. Director of CPL and CPE	1,000	6,000
S. E. Eagles Director and President of CPE	2,000	—
C. A. Fielding(1) Director of CPL	—	2,069,314
J. Fox Vice-President – Engineering, Special Projects, CP Rail	11	—
Thomas M. Galt Director of CPE	1,126	3,000
J. H. Geddis Vice-President Transportation Development, CP Rail	800	825
R. C. Gilmore Executive Vice-President, CP Rail	387	—
J. F. Hankinson Vice-President Finance and Accounting of CPE	718	—
Allard Jiskoot Director of CPL	—	15,000
J. P. Kelsall Vice-President Operation and Maintenance, CP Rail	—	1

	CPE Common Shares	CPL Ordinary Shares
A. S. Kingsmill, Q.C. Director of CPL	2,638	6,000
C. Merv Leitch, Q.C. Director of CPE	100	2,000
John Macnamara Director of CPE	488	—
Angus A. MacNaughton Director of CPE	2,000	2,000
Donald C. Matthews Director of CPL	—	6,300
J. A. McDonald Vice-President Industry Relations of CPL	1,010	—
W. Earle McLaughlin, O.C. Director of CPL and CPE	20,880	15,000
Stanley A. Milner Director of CPL	—	12,000
J. H. Moore Director of CPL	3,000	6,000
William D. Mulholland Director of CPL	—	9,000
C. R. O. Munro, Q.C. Vice-President Law and General Counsel of CPL	—	—
Paul A. Nepveu Director of CPE	2,066	750
John L. Nichol, O.C. Director of CPE	—	4,500
R. A. Norris Comptroller of CPE	6	—
Paul L. Paré, O.C. Director of CPL and CPE	4,000	6,000
C. R. Pike Vice-President Prairie Region, CP Rail	335	—
The Rt. Hon. Lord Polwarth, T.D., D.L. Director of CPL	—	6,000
Claude Pratte, Q.C. Director of CPL and CPE	110,000	39,501
C. Douglas Reekie Director of CPL and CPE	1,415	6,072
R. T. Riley Vice-President Corporate of CPL	2,379	4
R. J. Ritchie Vice-President Marketing and Sales, CP Rail	61	—

	CPE Common Shares	CPL Ordinary Shares
Lucien G. Rolland, O.C. Director of CPL	25	15,000
Thomas G. Rust Director of CPL	—	6,000
I. B. Scott Chairman and Chief Executive Officer, CP Rail	400	—
G. F. Sekely Vice-President Computers and Communications, CP Rail	—	—
F. H. Sherman Director of CPL	—	6,000
D. E. Sloan Treasurer of CPL	100	—
R. D. Southern Director of CPE	9,000	2,000
W. W. Stinson Director of CPL and CPE, President and Chief Executive Officer of CPL	856	12,238
J. Thomson Comptroller of CPL	2,025	600
Jean Casselman Wadds, O.C. Director of CPL	—	6,000
F. Wallace Vice-President Purchases and Materials, CP Rail	—	—
Ray D. Wolfe, C.M. Director of CPL and CPE	10,000	19,429
B. J. Zafirian Treasurer of CPE	—	—

(1) Mr. Fielding also beneficially owns or exercises control or direction over 10,685,099 CPL Preference Shares.

Directors and executive officers (and their affiliates) of CPL and of CPE hold or are deemed under regulations of the SEC to hold 26,040,903 (11.36%) of the CPL Ordinary and Preference Shares and 2,065,177 (1.33%) of the CPE Common Shares entitled to vote. None of such persons has indicated an intention to vote such shares otherwise than for the merger.

For information respecting the identity of directors and executive officers of CPL and CPE, respectively, their compensation, insurance and other matters and certain transactions with CPL, CPE or their affiliates see, in the case of CPL, Schedule VII to this Joint Proxy Statement and its Management Proxy Statement dated March 11, 1985 pages 3 through 13 and, in the case of CPE, its Proxy Statement dated March 1, 1985 pages 3 through 14, which information is incorporated herein by reference.

Experts

The consolidated financial statements and schedules included or incorporated by reference in CPL's Annual Report on Form 10-K and in CPE's Annual Report on Form 10-K incorporated by reference in this Joint Proxy Statement have been examined by Price Waterhouse, Chartered Accountants, as stated in their reports incorporated herein and therein by reference. The consolidated financial statements and schedules have been so incorporated by reference in reliance upon such reports given upon the authority of said firm as experts in accounting and auditing. Representatives of Price Waterhouse are expected to be present at the shareholders' meetings, with the opportunity to make a statement if they so desire and to respond to appropriate questions.

Directors' Approvals

Information contained or referred to in this Joint Proxy Statement with respect to CPL and CPE has been furnished by CPL and CPE respectively.

For the purposes of United Kingdom legislation, the directors of CPL and the directors of CPE, who are expressly identified as directors of CPL or CPE on pages 17 to 20 of this Joint Proxy Statement, are the persons responsible for the information contained or incorporated by reference herein relating to their respective companies. To the best of the knowledge and belief of the directors of CPL and CPE (who have taken all reasonable care to ensure that such is the case), the information for which the directors of CPL and CPE are accordingly responsible is in accordance with the facts and does not omit anything likely to affect the import of the information for which the directors of CPL and CPE are respectively responsible.

The contents and the sending of this Joint Proxy Statement have been approved by the directors of CPL and of CPE.

D. J. Deegan,
Secretary
Canadian Pacific Limited

K. S. Benson,
Vice-President Administration and Secretary
Canadian Pacific Enterprises Limited

October 16, 1985

Schedule I

Amalgamation Agreement

This Agreement made as of October 16, 1985.

Among:

Canadian Pacific Enterprises Limited,
incorporated under the laws of Canada,

(hereinafter called "CPE"),

Of The First Part,

and

Canadian Pacific Limited,
incorporated under the laws of Canada,

(hereinafter called "CPL"),

Of The Second Part,

and

CPS Limited,
incorporated under the laws of Canada,

(hereinafter called "CPS"),

Of The Third Part.

WHEREAS the authorized capital of CPE consists of 12,500,000 Preferred Shares and an unlimited number of Common Shares, of which there are issued as of the date hereof 5,000,000 Cumulative Redeemable Convertible Preferred Shares, Series B and 155,078,813 Common Shares, of which 107,941,718 Common Shares are held by CPL;

AND WHEREAS the authorized capital of CPL consists of 20,381,788 Preferred Shares, a number of Preference Shares determined on the basis of a formula and an unlimited number of Ordinary Shares, of which there are issued as of the date hereof 14,133,960 Preference Shares and 215,179,384 Ordinary Shares;

AND WHEREAS the authorized capital of CPS consists of an unlimited number of Common Shares, of which 1,000 are issued and held by CPL;

AND WHEREAS it is proposed that CPE and CPS amalgamate and that shareholders of CPE become shareholders of CPL;

NOW THEREFORE THIS AGREEMENT WITNESSETH as follows:

1. CPE and CPS (hereinafter together called the "Amalgamating Corporations") shall amalgamate pursuant to the Canada Business Corporations Act and continue as one corporation (hereinafter called the "Amalgamated Corporation") upon and subject to the terms and conditions hereinafter set forth.

2. The name of the Amalgamated Corporation shall be Canadian Pacific Enterprises Limited – Entreprises Canadien Pacifique Limitée.

3. The registered office of the Amalgamated Corporation shall be situated in the City of Calgary in the Province of Alberta.

4. The Amalgamated Corporation shall be authorized to issue an unlimited number of Common Shares.

5. (a) On the date shown in the certificate of amalgamation issued in respect of the Amalgamated Corporation (hereinafter called the "Effective Date"):

(i) the holders of the CPE Common Shares (other than CPL) shall receive 1.675 CPL Ordinary Shares for each CPE Common Share instead of securities of the Amalgamated Corporation, subject to clause 5(b), and the CPE Common Shares (other than those held by CPL) shall be cancelled;

(ii) the CPE Common Shares held by CPL shall be converted into one Common Share of the Amalgamated Corporation;

(iii) the CPS Common Shares held by CPL shall be converted into one Common Share of the Amalgamated Corporation; and

(iv) in consideration for the issue by CPL of its Ordinary Shares as contemplated by clause 5(a) (i), the Amalgamated Corporation shall issue to CPL one Common Share of the Amalgamated Corporation for each CPL Ordinary Share so issued.

(b) Instead of the issue of fractional CPL Ordinary Shares to be received in the amalgamation, each holder of CPE Common Shares who otherwise would be entitled to receive a fraction of a CPL Ordinary Share shall be paid by CPL by cheque in respect of such fraction an amount equal to that obtained by multiplying such fraction by the closing sale price per share for a board lot of CPL Ordinary Shares on The Toronto Stock Exchange on the last day on which such shares were traded prior to the Effective Date.

6. Before the implementation of the amalgamation, CPE shall redeem or purchase its Cumulative Redeemable Convertible Preferred Shares, Series B.

7. CPL covenants that on the Effective Date it shall issue its Ordinary Shares to holders of CPE Common Shares as contemplated by clause 5(a)(i).

8. There shall be no restriction on the transfer of shares of the Amalgamated Corporation.

9. The board of directors of the Amalgamated Corporation shall consist of a minimum number of 3 and a maximum number of 12 directors, the number of which shall be fixed from time to time by the directors. On the Effective Date, the number of directors shall be 8. The first directors of the Amalgamated Corporation shall be the persons whose names and addresses are set forth below:

Name	Address
Kenneth S. Benson	246 Eagle Ridge Dr. S.W. Calgary, Alberta T2V 2V7
Robert W. Campbell	3819 – 10th St. S.W. Calgary, Alberta T2T 3J2
J. Paul T. Clough	137 Easton Avenue Montreal West, Quebec H4X 1L4
Stuart E. Eagles	2223 Carleton Street S.W. Calgary, Alberta T2T 3K4
James F. Hankinson	243 Lake Placid Green S.E. Calgary, Alberta T2J 5G6
C. Robert O. Munro, Q.C.	1 Manresa Court Beaconsfield, Quebec H9W 5H5
Ronald T. Riley	34 Forden Avenue Westmount, Quebec H3Y 2Z1
William W. Stinson	4005 Redpath Street Apartment 403 Montreal, Quebec H3G 2G9

Such directors shall hold office until the first annual meeting of the Amalgamated Corporation or until their successors are elected or appointed.

10. There shall be no restriction on the businesses that the Amalgamated Corporation may carry on.

11. The by-laws of the Amalgamated Corporation shall be those of CPE until amended or repealed.

12. This Agreement shall be conditional on:

(a) the approval of this Agreement by a majority of the votes cast by the holders of the CPE Common Shares other than CPL voting in respect of the special resolution to approve this Agreement;

(b) the approval of the issue of CPL Ordinary Shares pursuant to this Agreement by a majority of the votes cast by the holders of the Ordinary and Preference Shares of CPL voting together; and

(c) the receipt by CPE prior to the Effective Date of an opinion of counsel to CPL to the effect that the issue of the CPL Ordinary Shares as contemplated by clause 5(a)(i) has been duly authorized by the board of directors of CPL and that such Ordinary Shares, when issued on the Effective Date, will be validly issued as fully paid and non-assessable.

13. CPL represents and warrants to CPE that:

(a) CPL is duly incorporated and validly existing under the laws of Canada and has the corporate power and corporate authority to own its properties and assets and to carry on its businesses as they are being conducted.

(b) The board of directors of CPL has duly authorized the execution and delivery of this Agreement by CPL.

(c) CPL has the corporate power and corporate authority to enter into this Agreement.

(d) The execution of this Agreement does not and the amalgamation of CPE and CPS will not result in a breach of or violate any term or provision of the articles of continuance or the by-laws of CPL.

(e) CPL is authorized to issue 20,381,788 Preferred Shares, a number of Preference Shares determined on the basis of a formula and an unlimited number of Ordinary Shares, of which there are issued as of the date hereof 14,133,960 Preference Shares and 215,179,384 Ordinary Shares, and CPL does not have any outstanding subscriptions, warrants, options or other agreements or commitments obligating it to issue additional shares other than in respect of its Dividend Reinvestment and Share Purchase Plan and its obligations hereunder.

(f) The consolidated balance sheet of CPL as of December 31, 1984 and the related statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended, reported upon by its auditors, Price Waterhouse, Chartered Accountants, and its unaudited financial statements for the six months ended June 30, 1985, together in each case with the notes thereto, present fairly the financial position of CPL and the results of its operations and changes in its financial position for the respective periods then ended and, except as stated in such notes, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. As of June 30, 1985, CPL had no material indebtedness or liability (absolute or contingent) which is not shown on or reflected in the balance sheet as of that date, or the notes thereto, and which is required to be shown thereon or reflected therein in accordance with generally accepted accounting principles, except as stated in such notes. CPL is not in default in connection with any material indebtedness or under any indenture, loan agreement or other instrument pursuant to which it has incurred any material indebtedness.

14. CPE represents and warrants to CPL and CPS that:

(a) CPE is duly incorporated and validly existing under the laws of Canada and has the corporate power and corporate authority to own its properties and assets and to carry on its business as it is being conducted.

(b) The board of directors of CPE has duly authorized the execution and delivery of this Agreement by CPE.

(c) CPE has the corporate power and corporate authority to enter into this Agreement.

(d) The execution of this Agreement does not and the amalgamation of CPE and CPS will not result in a breach of or violate any term or provision of the articles of incorporation or the by-laws of CPE.

(e) CPE is authorized to issue 12,500,000 Preferred Shares and an unlimited number of Common Shares, of which there are issued as of the date hereof 5,000,000 Cumulative Redeemable Convertible Preferred Shares, Series B and 155,078,813 Common Shares, and CPE does not have any outstanding subscriptions, warrants, options or other agreements or commitments obligating it to issue additional shares other than in respect of its Dividend Reinvestment and Share Purchase Plan and on conversion of its Cumulative Redeemable Convertible Preferred Shares, Series B.

(f) The consolidated balance sheet of CPE as of December 31, 1984 and the related statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended, reported upon by its auditors, Price Waterhouse, Chartered Accountants, and its unaudited financial statements for the six months ended June 30, 1985, together in each case with the notes thereto, present fairly the financial position of CPE and the results of its operations and changes in its financial position for the respective periods then ended and, except as stated in such notes, have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. As of June 30, 1985, CPE had no material indebtedness or liability (absolute or contingent) which is not shown on or reflected in the balance sheet as of that date, or the notes thereto, and which is required to be shown thereon or reflected therein in accordance with generally accepted accounting principles, except as stated in such notes. CPE is not in default in connection with any material indebtedness or under any indenture, loan agreement or other instrument pursuant to which it has incurred any material indebtedness.

15. CPS represents and warrants to CPE that:

(a) CPS is duly incorporated and validly existing under the laws of Canada, its only asset is cash, it has no liabilities and to date has not conducted business.

(b) The board of directors and the sole shareholder of CPS have duly authorized the execution and delivery of this Agreement by CPS.

(c) CPS has the corporate power and corporate authority to enter into this Agreement.

(d) The execution of this Agreement does not and the amalgamation of CPE and CPS will not result in a breach of or violate any term or provision of the articles of incorporation or the by-laws of CPS.

(e) CPS is authorized to issue an unlimited number of Common Shares, of which as of the date hereof 1,000 are issued and held by CPL, and CPS does not have any outstanding subscriptions, warrants, options or other agreements or commitments obligating it to issue additional shares.

16. At any time before the issue of a certificate of amalgamation in respect of the Amalgamated Corporation, this Agreement may be terminated by the directors of either of the Amalgamating Corporations notwithstanding approval of this Agreement by the shareholders of both or either of the Amalgamating Corporations.

17. This Agreement shall be governed by and construed in accordance with the laws applicable in the Province of Ontario.

IN WITNESS WHEREOF the parties have executed this Agreement.

Canadian Pacific Enterprises Limited
By:

"Robert W. Campbell"
Chairman and Chief Executive Officer C/S

"Kenneth S. Benson"
Vice-President Administration and Secretary

Canadian Pacific Limited
By:

"W. W. Stinson"
President and Chief Executive Officer C/S

"D. J. Deegan"
Secretary

CPS Limited
By:

"W. W. Stinson"
President C/S

"D. J. Deegan"
Secretary

WOOD GUNDY

BURNS FRY LIMITED

The Board of Directors
Canadian Pacific Limited,
Montreal, Canada

October 16, 1985

Gentlemen:

You have retained us as financial advisors with respect to the proposed merger of Canadian Pacific Limited ("CPL") and Canadian Pacific Enterprises Limited ("CPE"). The merger will be effected by an amalgamation of CPE with a wholly-owned subsidiary of CPL pursuant to which the shareholders of CPE other than CPL will receive 1.675 ordinary shares of CPL in exchange for each CPE common share held. The proposed merger will be considered at special meetings of shareholders of both CPL and CPE to be held in December, 1985. You have requested our opinion as to whether the proposed share exchange ratio is fair and reasonable from a financial point of view to the shareholders of CPL.

In preparing our opinion, we have reviewed and considered, among other things, certain information, including:

(a) a draft of the Joint Proxy Statement to be mailed to the shareholders of CPL and CPE in connection with the merger;
(b) certain publicly available information concerning CPL and CPE and their subsidiaries;
(c) certain published stock market trading data relating to the shares of CPL and CPE and its subsidiaries, including price and volume data;
(d) certain internal information relating to the business and operations of CPL and CPE and their subsidiaries obtained from CPL and CPE;
(e) historical, current and forecasted financial information concerning CPL and CPE obtained from CPL and CPE;
(f) published stock market and other data of a general nature relating to the industries in which CPL and CPE and their subsidiaries operate; and
(g) such other financial, market and industry information that we considered appropriate in the circumstances.

In addition, we have held discussions with certain members of senior management of CPL and CPE concerning their respective operations.

Although we have no reason to believe that the financial and other information on which we have relied is not accurate or complete, we have assumed the accuracy and completeness thereof and have not attempted to verify independently any of such information.

In arriving at our opinion, we considered the comparative values of the shares of CPL and CPE based on their current and historical quoted market prices and based on estimates of the investment values of the two companies' assets. In arriving at such investment values, we considered the share prices of those subsidiaries which are publicly-held and estimates of the value at which the shares of subsidiaries and businesses which are not publicly-held would trade in

the market, such estimates being based on the application of ratios of price to earnings, to cash flow and to book value. We believe the above valuation methods to be the most appropriate in the circumstances. We also considered the comparative value of the shares of CPL and CPE based on the value at which their businesses might be sold. We do not believe that either the liquidation valuation method on the basis of the sale of physical assets or the discounted cash flow valuation method are appropriate in the circumstances.

In arriving at our opinion we also considered for the shareholders of each of CPL and CPE the effect of the merger on their respective ownership interests in the underlying assets of the companies and on their respective position on a per share basis with respect to earnings, book value and dividends.

Based on and subject to the foregoing it is our opinion that the terms of the proposed merger are fair and reasonable from a financial point of view to the shareholders of CPL.

Yours very truly,

"Wood Gundy Inc." "Burns Fry Limited"

Dominion Securities Pitfield

October 16, 1985

The Board of Directors
Canadian Pacific Enterprises Limited
2300, One Palliser Square
125 – 9th Avenue S. E.
Calgary, Alberta
T2G 0P6

Dear Sirs:

We understand that Canadian Pacific Enterprises Limited ("CP Enterprises") will submit for approval to a meeting of the holders of shares of CP Enterprises an amalgamation agreement pursuant to which CP Enterprises will be amalgamated with a wholly owned subsidiary of Canadian Pacific Limited ("CP Limited"). If the amalgamation is implemented on the effective date of the amalgamation all holders of Common Shares of CP Enterprises, other than CP Limited, will be entitled to receive 1.675 Ordinary Shares of CP Limited for each Common Share of CP Enterprises (the "Exchange Ratio"). You have retained us as financial advisors to CP Enterprises and have requested that we provide you with an opinion as to the fairness of the Exchange Ratio from a financial point of view to the holders, other than CP Limited, of Common Shares of CP Enterprises.

In arriving at the opinion set forth below we reviewed, analyzed and where appropriate relied upon:

(i) historic and current relationships between the stock market prices and trading patterns of CP Limited and CP Enterprises as reported by The Toronto Stock Exchange;

(ii) other general stock market data and indices including market data pertaining to major subsidiaries of CP Enterprises;

(iii) certain publicly available information on CP Enterprises, CP Limited and their subsidiaries;

(iv) certain internal information concerning the business, operations and prospects for CP Enterprises, CP Limited and their subsidiaries which was made available to us by CP Enterprises and CP Limited;

(v) interviews with senior management of CP Enterprises, CP Limited and certain of the major subsidiaries both wholly and partially owned concerning the respective businesses, financial condition, assets, plans and business activities of the respective companies;

(vi) earnings and other financial forecasts that were provided to us by senior management of CP Enterprises and CP Limited; and

(vii) such other information of a public nature or which was supplied to us by CP Enterprises and CP Limited and which we considered necessary or appropriate in the circumstances.

We have relied upon and have not independently verified the accuracy, completeness or adequacy of the foregoing information and any other information or data provided to us.

In arriving at our opinion, we analyzed and compared CP Enterprises and CP Limited on a going-concern basis. With respect to their subsidiary companies for which there was a quoted stock market value, this analysis included a determination as to whether there was any internal information which, if made public, would materially affect the price of the shares in the public market. With respect to wholly-owned subsidiaries for which there was no quoted market value, we determined going-concern values based on multiples applied to cash flows or earnings, or adjustments to

book values as we deemed appropriate to estimate a market value that might prevail if the respective subsidiaries were publicly traded companies. We believe the results of this going-concern analysis indicate that the respective values of the Common Shares of CP Enterprises and the Ordinary Shares of CP Limited are fairly reflected in the stock market. In our opinion, we believe that the analysis and comparative methodology described above are appropriate under the circumstances.

In arriving at our opinion, we also considered the significant degree to which holders of Common Shares of CP Enterprises on a pro forma basis would maintain their existing interest in the CP Enterprises' entities and that the dividend income per equivalent Common Share of CP Enterprises would be maintained under the Exchange Ratio.

Based on the foregoing, we are of the opinion that the Exchange Ratio of 1.675 Ordinary Shares of CP Limited for each Common Share of CP Enterprises is fair and reasonable from a financial point of view to the holders, other than CP Limited, of Common Shares of CP Enterprises.

Yours very truly,

Dominion Securities Pitfield Limited

Per: "B. W. Douglas"

Schedule IV

CANADIAN PACIFIC ENTERPRISES LIMITED
Special Resolution of Shareholders

RESOLVED as a special resolution that:

1. The Amalgamation Agreement made as of October 16, 1985 among Canadian Pacific Enterprises Limited, Canadian Pacific Limited and CPS Limited be and is hereby approved.
2. The proper officers of Canadian Pacific Enterprises Limited be and they are hereby authorized and directed to sign and deliver for and on behalf of Canadian Pacific Enterprises Limited articles of amalgamation and to do such other acts and things as may be considered necessary or desirable to give effect to the said Amalgamation Agreement.

Schedule V

CANADIAN PACIFIC LIMITED
Special Resolution of Shareholders

RESOLVED as a special resolution that:

1. The articles of the Corporation be amended to change the maximum number of directors of the Corporation from 24 to 30.
2. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

Schedule VI – Section 184 of the Canada Business Corporations Act

(1) Subject to sections 185 and 234, a holder of shares of any class of a corporation may dissent if the corporation is subject to an order under paragraph 185.1 (4) (d) that affects the holder or if the corporation resolves to

(a) amend its articles under section 167 or 168 to add, change or remove any provisions restricting or constraining the issue, transfer or ownership of shares of that class;

(b) amend its articles under section 167 to add, change or remove any restriction upon the business or businesses that the corporation may carry on;

(c) amalgamate with another corporation, otherwise than under section 178;

(d) be continued under the laws of another jurisdiction under section 182; or

(e) sell, lease or exchange all or substantially all its property under subsection 183 (2).

(2) A holder of shares of any class or series of shares entitled to vote under section 170 may dissent if the corporation resolves to amend its articles in a manner described in that section.

(3) In addition to any other right he may have, but subject to subsection (26), a shareholder who complies with this section is entitled, when the action approved by the resolution from which he dissents or an order made under subsection 185.1 (4) becomes effective, to be paid by the corporation the fair value of the shares held by him in respect of which he dissents, determined as of the close of business on the day before the resolution was adopted or the order was made.

(4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by him on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.

(5) A dissenting shareholder shall send to the corporation, at or before any meeting of shareholders at which a resolution referred to in subsection (1) or (2) is to be voted on, a written objection to the resolution, unless the corporation did not give notice to the shareholder of the purpose of the meeting and of his right to dissent.

(6) The corporation shall, within ten days after the shareholders adopt the resolution, send to each shareholder who has filed the objection referred to in subsection (5) notice that the resolution has been adopted, but such notice is not required to be sent to any shareholder who voted for the resolution or who has withdrawn his objection.

(7) A dissenting shareholder shall, within twenty days after he receives a notice under subsection (6) or, if he does not receive such notice, within twenty days after he learns that the resolution has been adopted, send to the corporation a written notice containing

(a) his name and address;

(b) the number and class of shares in respect of which he dissents; and

(c) a demand for payment of the fair value of such shares.

(8) A dissenting shareholder shall, within thirty days after sending a notice under subsection (7), send the certificates representing the shares in respect of which he dissents to the corporation or its transfer agent.

(9) A dissenting shareholder who fails to comply with subsection (8) has no right to make a claim under this section.

(10) A corporation or its transfer agent shall endorse on any share certificate received under subsection (8) a notice that the holder is a dissenting shareholder under this section and shall forthwith return the share certificates to the dissenting shareholder.

(11) On sending a notice under subsection (7), a dissenting shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares as determined under this section except where

(a) the dissenting shareholder withdraws his notice before the corporation makes an offer under subsection (12),

(b) the corporation fails to make an offer in accordance with subsection (12) and the dissenting shareholder withdraws his notice, or

(c) the directors revoke a resolution to amend the articles under subsection 167 (2) or 168 (4), terminate an amalgamation agreement under subsection 177 (6) or an application for continuance under subsection 182(6), or abandon a sale, lease or exchange under subsection 183 (8),

in which case his rights as a shareholder are reinstated as of the date he sent the notice referred to in subsection (7).

(12) A corporation shall, not later than seven days after the later of the day on which the action approved by the resolution is effective or the day the corporation received the notice referred to in subsection (7), send to each dissenting shareholder who has sent such notice

(a) a written offer to pay for his shares in an amount considered by the directors of the corporation to be the fair value thereof, accompanied by a statement showing how the fair value was determined; or

(b) if subsection (26) applies, a notification that it is unable lawfully to pay dissenting shareholders for their shares.

(13) Every offer made under subsection (12) for shares of the same class or series shall be on the same terms.

(14) Subject to subsection (26), a corporation shall pay for the shares of a dissenting shareholder within ten days after an offer made under subsection (12) has been accepted, but any such offer lapses if the corporation does not receive an acceptance thereof within thirty days after the offer has been made.

(15) Where a corporation fails to make an offer under subsection (12), or if a dissenting shareholder fails to accept an offer, the corporation may, within fifty days after the action approved by the resolution is effective or within such further period as a court may allow, apply to a court to fix a fair value for the shares of any dissenting shareholder.

(16) If a corporation fails to apply to a court under subsection (15), a dissenting shareholder may apply to a court for the same purpose within a further period of twenty days or within such further period as a court may allow.

(17) An application under subsection (15) or (16) shall be made to a court having jurisdiction in the place where the corporation has its registered office or in the province where the dissenting shareholder resides if the corporation carries on business in that province.

(18) A dissenting shareholder is not required to give security for costs in an application made under subsection (15) or (16).

(19) Upon an application to a court under subsection (15) or (16),

(a) all dissenting shareholders whose shares have not been purchased by the corporation shall be joined as parties and are bound by the decision of the court; and

(b) the corporation shall notify each affected dissenting shareholder of the date, place and consequences of the application and of his right to appear and be heard in person or by counsel.

(20) Upon an application to a court under subsection (15) or (16), the court may determine whether any other person is a dissenting shareholder who should be joined as a party, and the court shall then fix a fair value for the shares of all dissenting shareholders.

(21) A court may in its discretion appoint one or more appraisers to assist the court to fix a fair value for the shares of the dissenting shareholders.

(22) The final order of a court shall be rendered against the corporation in favour of each dissenting shareholder and for the amount of his shares as fixed by the court.

(23) A court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective until the date of payment.

(24) If subsection (26) applies, the corporation shall, within ten days after the pronouncement of an order under subsection (22), notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(25) If subsection (26) applies, a dissenting shareholder, by written notice delivered to the corporation within thirty days after receiving a notice under subsection (24), may

(a) withdraw his notice of dissent, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to his full rights as a shareholder; or

(b) retain a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(26) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

(a) the corporation is or would after the payment be unable to pay its liabilities as they become due; or

(b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities.

Schedule VII – Principal Shareholders and Management of CPL

Principal Holders of Voting Securities

As of October 16, 1985, except for the shares deemed to be beneficially owned by Messrs. Paul Desmarais, James W. Burns (see Note 1 to the following table) and Clifford A. Fielding (see Note 2 to the following table), each director and nominee for election as director and the other directors and officers as a group did not beneficially own in excess of 1% of any class of voting securities of CPL or any of its subsidiaries.

The only persons known to the directors or officers of CPL to be the beneficial owners of more than 5% of any class of its voting securities are as follows:

Title of class	Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of class
As of October 16, 1985			
Ordinary Shares	Caisse de dépôt et placement du Québec, 1981, avenue McGill College, Montréal, Québec H3A 3C7	21,081,765 shares Has sole voting and investment powers	9.80
As of September 30, 1985			
Ordinary Shares	Power Corporation of Canada, 759 Victoria Square, Montreal, Quebec H2Y 2K4	12,666,171 shares See Note 1	5.89
As of October 16, 1985			
Preference Shares	Alexander Centre Industries Limited, (a privately owned company), Sudbury, Ontario	1,719,659 Sterling shares 8,122,470 Canadian Dollar shares See Note 2	69.63
As of October 16, 1985			
Preference Shares	Maple Leaf Mills (Eastern) Limited, (a wholly owned indirect subsidiary of CPE), 3800 Notre Dame St. East, Montreal, Quebec H1W 2J8	33,000 Sterling shares 825,375 Canadian Dollar shares Has sole voting and investment powers	6.07

Notes:

1. At September 30, 1985 Power Corporation of Canada (Power) controlled or had substantial interests in companies which owned or held or controlled 1,847,400 Ordinary Shares, or 0.86% of the class, as to which Power is deemed under SEC regulations to have sole voting and investment powers and of which it is deemed to be the beneficial owner, and 10,818,771 Ordinary Shares, or 5.03% of the class, as to which Power is deemed to share voting and investment powers and of which it is also deemed to be the beneficial owner. At the same date, companies which Power controlled or in which it had substantial interests also owned or held or controlled shares in subsidiaries

Principal Holders of Voting Securities (continued)

of CPL, as to which Power is deemed to share (except where otherwise indicated) voting and investment powers and of which it is deemed to be the beneficial owner, as follows:

CPL subsidiary	Common shares	Percent of class
Canadian Pacific Enterprises Limited	*1,870,522	1.21
The Algoma Steel Corporation, Limited	1,490,900	10.36
AMCA International Limited	1,221,397	3.59
Cominco Ltd.	2,809,648	4.33
Pine Point Mines Limited	143,535	3.18
Vestgron Mines Limited	91,372	2.16
Great Lakes Forest Products Limited	609,300	3.12
Corporate Foods Limited	49,000	1.57
Eastern Bakeries Limited	4,200	0.38
PanCanadian Petroleum Limited	1,015,500	0.81
Steep Rock Resources Inc.	365	—

*Includes 52,400 shares, or 0.03% of the class, as to which Power is deemed to have sole voting and investment powers.

As the boards of directors of the companies which Power controls or in which it has substantial interests, which are The Investors Group, The Great-West Life Assurance Company, Montreal Trustco Inc., Consolidated-Bathurst Inc., Gesca Ltée, and their respective subsidiaries and pension funds, in fact exercise sole voting and investment powers with respect to the shares of CPL and its subsidiaries owned or held or controlled by them, Power disclaims beneficial ownership of any such shares.

Mr. Paul Desmarais, O.C., a director of CPL and CPE, is Chairman and Chief Executive Officer and controlling stockholder of Power, and is deemed under SEC regulations to be the beneficial owner of all shares of CPL and its subsidiaries of which Power is deemed to be the beneficial owner; Mr. Desmarais disclaims beneficial ownership of any shares he does not own directly. Mr. James W. Burns, also a director of CPL, is President and a director of Power and may also be deemed under the same regulations to be the beneficial owner of all the shares of CPL and its subsidiaries of which Power is deemed to be the beneficial owner; Mr. Burns disclaims beneficial ownership of any such shares.

An agreement dated December 15, 1981 among CPL, Power and Mr. Desmarais limits to 15% the voting shares of CPL that may be held by the Power group of companies and Mr. Desmarais. Under the agreement, the Power group will vote its beneficially owned shares of CPL in accordance with the recommendations of the Board of Directors of CPL, except in certain circumstances which do not apply to the matters identified in CPL's Notice of Special Meeting of Shareholders. The agreement extends until December 31, 1991, subject to early termination options which arise in certain situations. The agreement allows Power to increase its holdings beyond the 15% only if a take-over bid is made for CPL or if another shareholder acquires more than 10% of the voting shares of CPL. In the case of another shareholder acquiring more than 10%, Power's increased holdings together with those of other members of the Power group are limited to 5% more than the holdings of such other shareholder. Mr. Desmarais and Mr. Burns were nominated as directors of CPL in 1982 and 1983, respectively, pursuant to that agreement.

2. Alexander Centre Industries Limited (Alexander) also owns 633,466 Ordinary Shares. Management has been informed that more than 50% of the voting securities of Alexander is owned by Mr. Clifford A. Fielding, a director of CPL, and that the balance of the voting securities of Alexander is owned by members of Mr. Fielding's family. In addition to the Ordinary Shares and the Preference Shares owned by Alexander, management has been informed that Mr. Fielding, members of his family, trusts established for them and other companies, the shares of which are owned by Mr. Fielding and/or members of his family, own an aggregate of 1,503,185 Ordinary Shares, 827,355 Canadian Dollar Preference Shares, 220,636 Sterling Preference Shares and 395 CPE Common Shares.

Election of Directors

Subject to shareholders' approval of a special resolution to amend the articles of CPL to increase the maximum number of directors from 24 to 30, management proposes to nominate five additional directors for election to the CPL Board effective upon implementation of the merger. The directors are elected for staggered terms and approximately one-third stand for election each year. The proposed terms of office of the five nominees are for the varying lengths of time shown below in order that, following the merger, there will continue to be approximately one-third of the fixed number of directors standing for election each year.

Information as of October 16, 1985 as to the aforementioned five nominees and the directors continuing in office is as follows:

Name of director (For committee memberships and meeting attendance, see Notes page 40)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the SEC (see Notes page 40) and major offices held in significant affiliates (†CPL subsidiaries)
Nominees for election as directors for one-year term or part thereof				
C. Merv Leitch, Q.C.	Partner, Law firm of Macleod Dixon, Calgary.	May 7, 1986 59	2,000 100 CPE Common Shares	Director of [1] †CPE [1] Chieftain Development Co. Ltd.
The Hon. John L. Nichol, O.C.	Corporate director, Vancouver.	May 7, 1986 61	2,000 2,500 CPL Ordinary Shares	Director of [1] †CPE [1] Alcan Aluminium Limited [1] Aluminum Company of Canada, Ltd. [1] Placer Development Limited
Nominees for election as directors for two-year term or part thereof				
Thomas M. Galt	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada, Toronto.	May 6, 1987 64	2,000 1,000 CPL Ordinary Shares 1,126 CPE Common Shares 1,000 PanCanadian Petroleum Limited Common Shares	Director of [1] †CPE
Angus A. MacNaughton	Chairman and Chief Executive Officer, Genstar Corporation, San Francisco, engaged in diversified operations.	May 6, 1987 54	2,000 2,000 CPE Common Shares 12,000 PanCanadian Petroleum Limited Common Shares	Director of [1] †CPE [1] Genstar Corporation
Nominee for election as director for three-year term or part thereof				
R. D. Southern	Deputy Chairman and Chief Executive Officer, ATCO Ltd., Calgary, a holding company for a worldwide group of companies engaged primarily in energy and resource-related industries.	May 4, 1988 55	2,000 9,000 CPE Common Shares	Director of [1] †CPE

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 40)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the SEC (see Notes page 40) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office				
Lloyd I. Barber, O.C. Ph.D.	President, University of Regina, Regina.	May 7, 1986 1983 53	2,000 4,000 CPL Ordinary Shares	Director of [1] The Bank of Nova Scotia [1] Husky Oil Ltd.
F. S. Burbidge ① ③	Chairman, CPL.	May 4, 1988 1971 67	2,000 18,190 CPL Ordinary Shares 4,894 CPE Common Shares 630 Cominco Ltd. Common Shares 510 AMCA International Limited Common Shares 400 PanCanadian Petroleum Limited Common Shares	Director of [1] †CPE [1] †AMCA International Limited †Cominco Ltd. †Marathon Realty Company Limited †PanCanadian Petroleum Limited [1] †Soo Line Corporation
James W. Burns	President, Power Corporation of Canada, Montreal, a holding and management corporation.	May 6, 1987 1983 55	2,000 (For list of voting securities that may be deemed to be beneficially owned by Mr. Burns, see Note 1 page 33)	Director of [1] Genstar Corporation
Robert W. Campbell ① ③	Chairman and Chief Executive Officer, CPE.	May 7, 1986 1982 62	2,000 4,000 CPL Ordinary Shares 517 CPE Common Shares 101 The Algoma Steel Corporation, Limited Common Shares 255 AMCA International Limited Common Shares 330 Cominco Ltd. Common Shares 400 Great Lakes Forest Products Limited Common Shares 13,760 PanCanadian Petroleum Limited Common Shares	Director, Chairman and Chief Executive Officer of [1] †CPE Chairman of the Board and Director of †PanCanadian Petroleum Limited Director of †The Algoma Steel Corporation, Limited [1] †AMCA International Limited †Cominco Ltd. †Great Lakes Forest Products Limited [1] Westinghouse Electric Corporation
Paul Desmarais, O.C. ① ③	Chairman and Chief Executive Officer, Power Corporation of Canada, Montreal, a holding and management corporation.	May 7, 1986 1982 58	2,000 4,000 CPL Ordinary Shares 1,000 CPE Common Shares (For list of voting securities deemed to be beneficially owned by Mr. Desmarais, see Note 1 page 33)	Director of [1] †CPE [1] The Seagram Company Ltd.

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 40)	Principal occupation or employment	Date on which present or proposed term of office expires Director since Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the SEC (see Notes page 40) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office (continued)				
C. A. Fielding	Honorary Chairman and Chief Executive Officer, Alexander Centre Industries Limited, Sudbury, Ontario, supplier of construction material and construction.	May 4, 1988 1984(**) 70	2,000 40,000 CPL Ordinary Shares 34,700 CPL Canadian Dollar Preference Shares 9,000 CPL Sterling Preference Shares (For list of voting securities deemed to be beneficially owned by Mr. Fielding, see Note 2 page 34)	Nil
*Allard Jiskoot	Director and Former Chairman of the Board, Pierson, Heldring & Pierson N.V., Amsterdam, The Netherlands, bankers.	May 6, 1987 1964 66	2,000 13,000 CPL Ordinary Shares	Director of 1 N.V. Philips Glowlamps
A. S. Kingsmill, Q.C.	Partner, Law firm of Tilley, Carson & Findlay, Toronto.	May 4, 1988 1984 58	2,000 4,000 CPL Ordinary Shares 2,638 CPE Common Shares 102 AMCA International Limited Common Shares	Partner of 3 4 Tilley, Carson & Findlay
Donald C. Matthews	President and General Manager, Highland Stock Farms Ltd., Calgary, cattle breeding.	May 6, 1987 1975 67	2,000 4,300 CPL Ordinary Shares 750 Cominco Ltd. Common Shares (includes 600 shares owned by Highland Stock Farms Ltd.) 204 AMCA International Limited Common Shares (includes 102 shares owned by Mr. Matthews' spouse, as to all of which he disclaims beneficial ownership) 100 AMCA International Limited Preferred Shares Series 1 (owned by Highland Stock Farms Ltd.)	Nil
W. Earle McLaughlin, O.C. 1 3 4	Director and Former Chairman of the Board, The Royal Bank of Canada, Montreal.	May 6, 1987 1965 70	2,000 13,000 CPL Ordinary Shares 20,880 CPE Common Shares 245 The Algoma Steel Corporation, Limited Common Shares 1,000 The Algoma Steel Corporation, Limited $2 Cumulative Redeemable Convertible Class B Preference Shares Series 1 510 AMCA International Limited Common Shares	Director of 1 †CPE †The Algoma Steel Corporation, Limited 1 General Motors Corporation 1 Genstar Corporation

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 40)	Principal occupation or employment	Date on which present or proposed term of office expires / Director since / Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares / Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the SEC (see Notes page 40) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office (continued)				
Stanley A. Milner ④	President and Chief Executive Officer, Chieftain Development Co. Ltd., Edmonton, engaged in petroleum and natural gas exploration and development.	May 4, 1988 1980 56	2,000 10,000 CPL Ordinary Shares	Director of 1 Banister Continental Ltd. Director, President and Chief Executive Officer of 1 Chieftain Development Co. Ltd.
J. H. Moore ②	Corporate director, Former Chairman of the Board, John Labatt Limited, London, Ontario, investment holding company.	May 6, 1987 1972 69	2,000 9,100 CPL Ordinary Shares 4,400 CPE Common Shares 3,600 PanCanadian Petroleum Limited Common Shares (except for 4,000 CPL Common Shares and 3,000 CPE Ordinary Shares, all other shares reported above are owned by trusts for the benefit of Mr. Moore's sister of which he is a trustee, as to all of which he disclaims beneficial ownership)	Director of 1 Bell Canada Enterprises Inc. 1 Bell Canada 1 Northern Telecom Limited
William D. Mulholland	Chairman and Chief Executive Officer, Bank of Montreal, Toronto.	May 4, 1988 1983 59	2,000 7,000 CPL Ordinary Shares	Director of 1 The Upjohn Company 1 Harris Bankcorp. Inc.
*Paul L. Paré, O.C. ① ③	Chairman and Chief Executive Officer, Imasco Limited, Montreal, a parent operating company with tobacco, food services and retail divisions.	May 7, 1986 1973 63	2,000 4,000 CPL Ordinary Shares 4,000 CPE Common Shares	Director of 1 †CPE †CIP Inc. 2 Canadian Fund Inc.
*The Rt. Hon. Lord Polwarth, T.D., D.L.	Director, Bank of Scotland, Edinburgh, Scotland.	May 7, 1986 1975 68	2,000 4,000 CPL Ordinary Shares	Director of 1 Halliburton Company
Claude Pratte, Q.C. ① ② ③	Partner, Law firm of Stein, Monast, Pratte & Marseille, Quebec.	May 4, 1988 1970 60	2,000 37,501 CPL Ordinary Shares 110,000 CPE Common Shares 323 The Algoma Steel Corporation, Limited Common Shares 336 AMCA International Limited Common Shares	Partner of 3 Stein, Monast, Pratte & Marseille Director of 1 †CPE †CIP Inc.

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes page 40)	Principal occupation or employment	Date on which present or proposed term of office expires / Director since / Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares / Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the SEC (see Notes page 40) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office (continued)				
C. Douglas Reekie	Vice-Chairman of the Board, CAE Industries Ltd., Toronto, a holding and management company.	May 6, 1987 1985 61	2,000 4,072 CPL Ordinary Shares 1,415 CPE Common Shares 2,000 Cominco Ltd. $2.00 Tax Deferred Exchangeable Preferred Shares Series A 1,500 PanCanadian Petroleum Limited Common Shares	Director of 1 †CPE 1 †AMCA International Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited
Lucien G. Rolland, O.C. ② ④	Chairman and Chief Executive Officer, Rolland inc., Montreal, manufacturer and distributor of fine papers.	May 7, 1986 1962 68	2,000 13,600 CPL Ordinary Shares (includes 600 shares owned by Mr. Rolland's spouse, as to all of which he disclaims beneficial ownership) 25 CPE Common Shares	Director of 1 Bell Canada Enterprises Inc. 1 Inco Limited 2 Canadian Fund Inc.
Thomas G. Rust ④	Chairman of the Board, Crown Forest Industries Limited, Vancouver, engaged in the manufacture, sale and worldwide distribution of pulp, paper, newsprint, lumber, plywood and other products.	May 7, 1986 1977 66	2,000 4,000 CPL Ordinary Shares 1,020 AMCA International Limited Common Shares	Director of 1 The Bank of Nova Scotia
F. H. Sherman	Chairman and Chief Executive Officer, Dofasco Inc., Hamilton, basic steel producer – engaged in production of hot rolled steels, skelp, plate, tin plate, cold rolled, galvanized and electrical steels, steel castings, pig iron.	May 6, 1987 1973 69	2,000 4,000 CPL Ordinary Shares 618,500 AMCA International Limited Common Shares (316,200 shares are owned by Dofasco Supplementary Retirement Savings Plan of which he is one of five trustees and 314,670 shares are owned by Dofasco Employees' Savings and Profit Sharing Fund of which he is one of four trustees, as to all of which he disclaims beneficial ownership)	Director of 1 The Bank of Nova Scotia
W. W. Stinson ① ③	President and Chief Executive Officer, CPL.	May 6, 1987 1981 51	2,000 10,238 CPL Ordinary Shares 856 CPE Common Shares 300 Cominco Ltd. Common Shares 400 Great Lakes Forest Products Limited Common Shares 100 PanCanadian Petroleum Limited Common Shares	Director of 1 †CPE †Cominco Ltd. †Great Lakes Forest Products Limited †Marathon Realty Company Limited †PanCanadian Petroleum Limited 1 †Soo Line Corporation

Election of Directors (continued)

Name of director (For committee memberships and meeting attendance, see Notes below)	Principal occupation or employment	Date on which present or proposed term of office expires / Director since / Age	CPL Ordinary Shares owned of record and beneficially as directors' qualifying shares / Equity securities of CPL or its subsidiaries beneficially owned other than CPL directors' qualifying shares	Certain other directorships and relationships required to be reported by the SEC (see Notes below) and major offices held in significant affiliates (†CPL subsidiaries)
Directors continuing in office (continued)				
Jean Casselman Wadds, O.C.	Corporate director, Former Commissioner, Royal Commission on the Economic Union and Development Prospects for Canada, Ottawa.	May 4, 1988 1984 65	2,000 4,000 CPL Ordinary Shares	Director of 1 Bell Canada
Ray D. Wolfe, C.M. ① ③	Chairman and Chief Executive Officer, The Oshawa Group Limited, Toronto, engaged in the merchandising of food, non-food and drugs.	May 4, 1988 1972 68	2,000 21,929 CPL Ordinary Shares (includes 4,500 shares owned by a Canadian registered charitable foundation of which Mr. Wolfe is a director, as to all of which he disclaims beneficial ownership) 10,000 CPE Common Shares	Director of 1 †CPE 1 The Bank of Nova Scotia

Notes:

Committee members are identified in the above column as follows	Committee	Number of meetings in 1984
①	Executive	14
②	Audit	4
③	Nominating	2
④	Compensation	1
	Board of Directors	12

*attended fewer than 75% of the meetings of the Board and committees on which he served

All directors and nominees have been associated with the firm, corporation or institution shown in the foregoing table during the past five years except Robert W. Campbell, who became the Vice-Chairman of CPE on February 5, 1982, Vice-Chairman and Chief Executive Officer on April 29, 1982 and Chairman and Chief Executive Officer on April 27, 1984 and, for more than 5 years prior thereto, was Chairman and Chief Executive Officer of PanCanadian Petroleum Limited, a subsidiary of CPL; and Mr. C. Merv Leitch, Q.C., who was Minister of Energy and Natural Resources, Government of Alberta since March, 1979 until his resignation in November, 1982 and , prior thereto, was Provincial Treasurer, Government of Alberta from April, 1975.

F.S. Burbidge was President of CPL from May 3, 1972 to May 5, 1981; William D. Mulholland was President and Chief Executive Officer of the Bank of Montreal from January, 1979 to the end of June, 1981; Lucien G. Rolland was Chairman, President and Chief Executive Officer of Rolland inc. from June 20, 1984 to February 6, 1985; Thomas G. Rust was Chairman of the Board, President and Chief Executive Officer of Crown Forest Industries Limited (formerly Crown Zellerbach Canada Limited) from September, 1982 to February, 1984; F.H. Sherman was President and Chief Executive Officer of Dofasco Inc. (formerly Dominion Foundries and Steel Limited) from 1964 to June 7, 1982 and Chairman, President and Chief Executive Officer from June 7, 1982 to June 3, 1983; Jean Casselman Wadds was High Commissioner for Canada to the United Kingdom from November, 1979 to February, 1983; Ray D. Wolfe was Chairman of the Board, President and Chief Executive Officer of The Oshawa Group Limited from 1977 until October, 1983.

(**) C.A. Fielding was a director of CPL from April, 1970 to October, 1971.

1 Subject to requirements of Sections 12 or 15(d) of the United States Securities Exchange Act of 1934.
2 Registered as an investment company under the United States Investment Company Act of 1940.
3 Law firm which CPL has retained in the last full fiscal year.
4 To which CPL and subsidiaries paid for property or services in 1984 in excess of 5% of the consolidated gross revenues of payee firm or corporation (for additional information, see section entitled Certain Transactions, page 44).

Election of Directors (continued)

Pursuant to SEC regulations, a brief description of the functions of the Audit, Nominating and Compensation Committees of the Board of Directors is given below.

Audit Committee

The Audit Committee reviews the financial statements of CPL before they are submitted to the Board of Directors for approval. The Audit Committee discusses with the independent auditors the scope of their examination, monitors progress of the independent audit and ensures the adequacy of accounting controls. The Audit Committee recommends to the Board the name of the independent auditors of CPL and the audit fees to be paid annually. The Audit Committee also reviews the scope and results of CPL's internal audit function.

Nominating Committee

In the event of a vacancy occurring on the Board of Directors or on a Committee of the Board, however caused, the Nominating Committee recommends to the Board a person or persons to fill any such vacancy. The Nominating Committee also considers and recommends to the Board the slate of directors to be nominated for election at any Annual Meeting of Shareholders. The Committee will consider nominees recommended by shareholders and such recommendations may be forwarded to the Secretary at the address shown for the registered office of CPL appearing on the cover page of this Joint Proxy Statement.

Compensation Committee

The Compensation Committee considers and recommends to the Board remuneration levels for directors and senior management and compensation or other such plans in which directors or officers may be eligible to participate. In addition, the Committee monitors benefits under compensation or other such plans and deals with other matters as directed by the Board from time to time.

Executive Compensation

The following table shows all cash compensation paid in 1984 or in respect of the year 1984 by CPL and its subsidiaries for services in all capacities to each of the five most highly compensated executive officers of CPL and certain subsidiaries, as to whom the total compensation required to be disclosed herein by SEC regulations exceeded $60,000 and to all executive officers as a group:

Name of individual or number in group	Capacities in which served	Cash compensation			
		CPL	CPE	Other subsidiaries	Total
F.S. Burbidge	As an executive officer of CPL and as a director of certain subsidiaries	$ 528,987	$ 19,000	$ 47,184	$ 595,171
W.W. Stinson	As an executive officer of CPL and as a director of certain subsidiaries	331,464	11,500	36,687	379,651
R.S. Allison	As an executive officer of CPL and as a director of certain subsidiaries	213,530	—	17,975	231,505
D.S. Maxwell, Q.C. (deceased)	As an executive officer of CPL and as a director of a subsidiary	188,408	—	14,300	202,708
R.W. Campbell	As an executive officer of CPE and as a director of CPL and certain subsidiaries	33,600	484,050	59,834	577,484
All executive officers as a group (including the five above named: 27)	As executive officers and as executive officers and directors	3,962,643	514,550	192,000	4,669,193

The aggregate amount of other compensation received by all executive officers as a group did not exceed $125,000.

Executive Compensation (continued)

Variable Compensation Payments Plans

Executive officers of CPL participate in a Variable Compensation Payments Plan, pursuant to which the Compensation Committee of the Board of Directors fixes, annually, a performance objective for each participant based upon the appropriate annual profit plan. The Committee also fixes, for each participant, a target payment level, ranging from 10% to 30% of annual base salary, which may be paid if the performance objective is met. In an exceptional year, target payment levels may be augmented by amounts up to 50% of the level originally fixed. Awards are paid in cash as soon as possible following the end of the year. No payments were made under the Plan in respect of 1984.

Under the Variable Compensation Payments Plan of CPE, the Compensation Committee of CPE's Board of Directors fixes, annually, an amount which designated executives may receive as additional compensation. This amount ranges generally from 12½% to 30% of annual base salary. The award entitlement in each year, payable in cash in the subsequent year, is based on CPE's planned net income being attained. If the planned net income is exceeded, the payments may be increased by an amount up to 50% of the original percentage fixed. Mr. R. W. Campbell, a director of CPL and a director and officer of CPE, was entitled to receive a payment under that Plan in 1985 for 1984, which amount is included in the preceding compensation table.

Compensation of Directors

The Board has authorized the payment to each director (other than those directors who are salaried officers of CPL) of a basic retainer of $10,000, an additional retainer of $5,000 for each member of the Executive Committee, an additional retainer of $1,000 for the Chairman of the Audit Committee, a fee of $600 for each director for each meeting of the Board attended and a fee of $600 for each member for each meeting of the Executive, Audit, Compensation, Nominating, Pension Trust Fund and Management Resources Committees attended.

Pension Plan

CPL maintains a contributory, defined benefit pension plan pursuant to which pensions are paid to eligible officers and employees of CPL at retirement. Under the plan, pensions are paid at the normal retirement age of 65, based upon pensionable earnings (wages or salary) and credited years of service up to a maximum of 35, as follows:

Pension Table

Estimated annual pension income payable at retirement
(See Note 2 for pensionable earnings and credited years of service of named executive officers)

Best consecutive or final five-year average pensionable earnings	Credited years of service				
	15	20	25	30	35
$150,000	$ 45,456	$ 59,940	$ 74,940	$ 89,940	$102,440
200,000	61,290	80,773	100,773	120,773	137,440
250,000	77,123	101,607	126,607	151,607	172,440
300,000	92,956	122,440	152,440	182,440	207,440
350,000	108,790	143,273	178,273	213,273	242,440
400,000	124,623	164,107	204,107	244,107	277,440
450,000	140,456	184,940	229,940	274,940	312,440

Executive Compensation (continued)

Notes:

1. Benefits arising from the pension plan are based on pensionable salary only and not on any fees, directors' fees, commissions, bonuses, or salary beyond normal retirement.
2. Pensionable earnings during 1984 and credited years of service at the end of 1984 for executive officers named in the compensation table were as follows: Mr. Stinson $306,075 and 31 5/12 years and Mr. Allison $195,900 and 35 years. Mr. Burbidge's pension was fixed at $209,898.48 per year upon his reaching normal retirement age in 1983. Mr. Campbell does not participate in CPL's Pension Plan nor did Mr. Maxwell (see the second paragraph following these Notes).
3. The amount of the contribution, payment or accrual made by CPL for the year 1984 for officers, individually or as a group, is not and cannot readily be separately or individually calculated by CPL's actuaries.
4. Benefit amounts listed in the above pension table are payable during the lifetime of the pensioner and, at a reduced level, during the lifetime of the surviving spouse and are not subject to any deduction for Canada Pension Plan or Quebec Pension Plan income.

Officers and certain management and supervisory employees who defer their retirement beyond age 65 at the request of CPL will be paid monthly by CPL, upon retirement, a supplementary allowance of 1% of his or her monthly basic pension entitlement multiplied by the number of months such employee defers his or her retirement beyond age 65. Two persons among the above group of 27 executive officers accrued a supplementary allowance under this policy during 1984. As of October 16, 1985, Mr. Burbidge had accrued a supplementary allowance based on 25 months of service beyond normal retirement age and another officer included in the group but not named in the compensation table had accrued a supplementary allowance based on 9 months of service beyond normal retirement age.

Pursuant to an agreement with CPE, Mr. Campbell is to receive from it, after retirement, a total monthly payment equal to 66⅔ of his average monthly salary during the five years immediately preceding his retirement less any benefits received from the PanCanadian Petroleum pension plan and the pension plan of a previous employer. During 1984, the compensation and retirement benefits of Mr. Maxwell and one other officer included in the group but not named in the compensation table were governed by individual employment contracts of indefinite duration pursuant to which their compensation was determined from time to time by corporate policy. Although Mr. Maxwell's employment contract fixed his retirement income to be paid at age 65 at 27.3% of his then current compensation, subsequent to his death CPL made an arrangement for periodic payments to his estate. The other officer continues to be covered by an individual pension arrangement under which he accrued retirement benefits equal to 3½% of his final 5-year average salary for each year of service, up to his normal retirement date, less any benefits received from his own contributions to a registered retirement savings plan. As of December 31, 1984, he had accrued a supplementary allowance based on one month of service beyond normal retirement age and calculated on the same basis as the 1% policy referred to in the previous paragraph.

Certain executive officers of CPL retiring at or after normal retirement age on or before July 1, 1989 will receive a smaller pension under the pension plan than they would have received had certain planned salary increases for 1983 and 1984 been implemented. Those salary increases, which were designed to bring these officers up to or closer to the authorized salary levels of their respective positions, were restrained by virtue of the *Public Sector Compensation Restraint Act.* Since pensionable earnings under the plan are generally determined on the basis of compensation during the five years immediately preceding retirement, smaller pensions will be payable to those officers whose pensionable earnings are based in part on the years 1983 and 1984. The eight executive officers so affected will be entitled to receive as a supplemental benefit from CPL an amount equal to the difference between the pension payable under the plan and the pension that would have been payable had salary increases not been restrained. Entitlement to this supplemental benefit is conditional upon retirement on or after normal retirement age. It is anticipated that the aggregate amount payable as a supplemental benefit to all eight executive officers will not exceed $19,000 per annum.

Certain Transactions

The firm of Tilley, Carson & Findlay, of which Mr. A. S. Kingsmill, Q.C., a director of CPL since May 1984, is a partner, performs legal services for CPL and its subsidiaries in the normal course of business. Fees for such services amounted to $536,095 and $527,980 during the fiscal years ended December 31, 1983 and 1984, respectively.

CPL and its subsidiaries, in the normal course of business, have effected a number of borrowings from the Bank of Montreal, of which Mr. William D. Mulholland, a director of CPL, is Chairman and Chief Executive Officer. These borrowings, arranged at various times at arm's length, did not exceed 5% of CPL's total consolidated assets at the end of any of CPL's past three fiscal years, except at December 31, 1982 when such borrowings amounted to $1,063,000,000.

Executive Officer Information

Since the date of CPL's Annual Report on Form 10-K for the year ended December 31, 1984, Mr. C. R. O. Munro, Q.C., was appointed Vice-President Law and General Counsel of CPL and Mr. I. B. Scott was appointed Chairman and Chief Executive Officer, CP Rail. Mr. Munro, age 60, was Assistant Vice-President, Law of CPL during the past five years. Mr. Scott, age 55, during the past five years was General Manager, Public Relations and Advertising until May 6, 1981, when he was appointed Vice-President Administration and Public Affairs.

Legal deposit – 4th quarter 1985

Printed in Canada

Report of the Proceedings of the Special Meeting of Shareholders held at Montreal on Thursday, December 5, 1985

The meeting assembled in accordance with the convening notice at 10:00 a.m., Montreal time, at Le Château Champlain, Montreal, Quebec.

In accordance with the by-laws of the Corporation, the Chairman of the Corporation, Mr. F. S. Burbidge, presided and the Secretary of the Corporation acted as secretary of the meeting.

The Chairman introduced members of the Board of Directors and the nominees for election as directors effective upon implementation of the merger of Canadian Pacific Enterprises Limited and the Corporation. He then introduced the representatives of the Corporation's auditors, as well as the representatives of the Corporation's financial advisors.

With the approval of the meeting, the Chairman named Mr. A. J. Gareau and Mr. W. J. Johnston, both employees of the Montreal Trust Company, to act as Scrutineers.

There were 141 shareholders and proxyholders present at the meeting. A total of 163,143,182 votes were represented consisting of 163,115,707 votes in respect of which proxies had been deposited with the Corporation in accordance with the proxy requirements set forth in the notice calling the meeting and 27,475 votes represented by shareholders who attended the meeting in person.

Notice of the meeting having been given as required and a quorum being present, the Chairman declared the meeting to be regularly called and properly constituted for the transaction of business.

Mr. J. Brian Aune moved and Mr. Lynn H. Goth seconded the following resolution concerning the confirmation of minutes of the Annual Meeting of Shareholders held on May 1, 1985:

RESOLVED, that reading of the minutes of the Annual Meeting of Shareholders, held on May 1, 1985, be dispensed with and that said minutes be taken as read and confirmed.

The question having been put to a vote, the Chairman declared the motion carried.

The Chairman then informed the shareholders as follows:

"As the shareholders are aware, the purpose of this meeting is to deal with certain matters relating to a proposed merger of Canadian Pacific Enterprises and Canadian Pacific Limited. The merger has been proposed to facilitate the integration of the businesses and operations and the unification of the managements of both corporations and to allow for more effective coordination and utilization of their financial resources and assets. The terms of the proposed merger are set out in full in the Joint Proxy Statement forwarded to the shareholders, copies of which were made available at the entrance to this meeting room. The ability of the corporations to pursue further growth prospects and future investment opportunities can be improved by the merger and it is expected that as a result of the merger the Ordinary Shares of Canadian Pacific Limited will reflect better the value of the assets and earnings of the combined corporations.

The Boards of Directors of Canadian Pacific Enterprises Limited and Canadian Pacific Limited consider it advantageous to both corporations and their respective shareholders that the merger proceed and have unanimously recommended that shareholders vote for its approval."

At the conclusion of the Chairman's remarks, Mr. Latham C. Burns moved and Mr. Frank B. Peterson seconded the following resolution:

RESOLVED, that the issue of Ordinary Shares in connection with the merger of Canadian Pacific Enterprises Limited (CPE) and the Corporation pursuant to the Amalgamation Agreement dated October 16, 1985 among CPE, the Corporation and CPS Limited be approved.

A vote on the foregoing resolution was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together.

With the consent of the meeting, the Chairman then proceeded to the next item of business.

Mr. Guy M. Drummond, Q.C. moved and Mr. John A. McDonald seconded the following special resolution:

RESOLVED, as a special resolution that:

1. The articles of the Corporation be amended to change the maximum number of directors of the Corporation from 24 to 30.

2. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

A vote was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together on the special resolution.

The Chairman instructed the Scrutineers to retire, tabulate the ballots and provide the Chair with Scrutineers' Reports on the two votes.

The Chairman recessed the meeting until receipt of the Scrutineers' Reports on the votes. At the conclusion of the recess, the Chairman called the meeting to order.

The Chairman read and adopted the Scrutineers' Report on the vote of the holders of the Ordinary and Preference Shares voting together on the motion for the approval of the issue of Ordinary Shares. He said that 161,075,986 votes had been cast for the resolution and that 833,917 votes had been cast against the resolution. He declared the motion carried by more than a majority of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the resolution. He then read the Scrutineers' Report on the vote of the holders of the Ordinary and Preference Shares voting together on the special resolution to amend the articles of the Corporation. He said that 157,034,530 votes had been cast for the resolution and that 3,265,487 votes had been cast against the resolution. He declared the motion carried by a majority of more than two-thirds of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the special resolution. The Chairman directed that the Scrutineers' Reports be annexed to the minutes of the meeting.

The Chairman stated that the final item of business to come before the meeting was the election of five additional directors of the Corporation effective upon implementation of the merger. Mr. James B. Pitblado moved and Mr. David M. McEntyre seconded the following resolution:

RESOLVED, that Thomas M. Galt, C. Merv Leitch, Q.C., Angus A. MacNaughton, The Hon. John L. Nichol, O.C., and R. D. Southern be elected directors of the Corporation effective upon implementation of the merger of Canadian Pacific Enterprises Limited and the Corporation, the terms of office of Messrs. Leitch and Nichol to end at the close of the first annual meeting of shareholders following their election, the terms of Messrs. Galt and MacNaughton to end at the close of the second such meeting and the term of Mr. Southern to end at the close of the third such meeting.

The question having been put to a vote, the Chairman declared the motion carried.

All business for which the Special Meeting was called having been accomplished, Mr. J. Michael G. Scott moved and Mr. Richard J. Riendeau, Q.C. seconded the following resolution:

RESOLVED, that this meeting do now terminate.

The resolution having been put to a vote, the Chairman declared the motion carried and the meeting terminated.

F. S. Burbidge

Chairman

Secretary

At a meeting of the shareholders of Canadian Pacific Enterprises Limited held in Calgary on Friday, December 6, 1985, the merger was approved by 99.4% of the shares voted including 97.6% of those held by shareholders other than Canadian Pacific Limited.

The merger became effective on December 6, 1985, shortly after the shareholders' approval.

Printed in Canada

Legal deposit – 4th quarter 1985.

AR40

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Annual Report under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1985 Commission file number 1-1342-2

CANADIAN PACIFIC LIMITED

Canada 98-0001377

(I.R.S. Employer Identification No.)

910 Peel Street
P.O. Box 6042, Station A
Montreal, Quebec
Canada H3C 3E4

Registrant's telephone number, including area code (514) 395-5151

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
(a) Perpetual 4% Consolidated Debenture Stock	New York Stock Exchange
(b) Ordinary Shares without nominal or par value	" " " "

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO ___

The aggregate market value of the voting shares held by non-affiliates of the registrant: $5,338,382,850 as at March 10, 1986.
On March 10, 1986, there were 297,900,933 Ordinary Shares, without nominal or par value, outstanding.

Documents Incorporated by Reference:
Annual Report to shareholders for the year ended December 31, 1985
- Part I, Item 3
- Part II, Items 5-8

Proxy Statement dated March 10, 1986 - Part III.

CANADIAN PACIFIC LIMITED

1985 FORM 10-K ANNUAL REPORT

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PART 1

In this Form 10-K, unless otherwise specified, all dollar amounts are expressed in Canadian dollars. Since June 1970, the Government of Canada has permitted a floating exchange rate to determine the value of the Canadian dollar against the U.S. dollar. On March 14, 1986, the noon buying rate in New York City, payable in Canadian dollars as reported by the Federal Reserve Bank of New York was U.S. $0.7197 = Can. $1.00. The high, low, closing and average spot rates for the Canadian dollar in terms of U.S. dollars for the five years ended December 31, 1985, as reported by the Federal Reserve Bank of New York were as follows:

	1985	1984	1983	1982	1981
High	$0.7575	$0.8054	$0.8201	$0.8430	$0.8499
Low	0.7130	0.7492	0.7993	0.7691	0.8048
Closing	0.7151	0.7566	0.8035	0.8132	0.8430
Average	0.7308	0.7710	0.8108	0.8088	0.8338

Item 1. Business

Canadian Pacific Limited (CP Limited, the Corporation or Registrant) directly and through subsidiaries, carries on transportation, the development of extensive natural resource properties, manufacturing and other activities in Canada and internationally.

In 1985 the average number of employees of CP Limited was approximately 123,400.

Effective December 6, 1985, the Corporation and Canadian Pacific Enterprises Limited (Enterprises) were merged. Under the merger, in which Enterprises became a wholly-owned subsidiary of the Corporation (previous ownership of Enterprises was approximately 70%), the minority holders of common shares of Enterprises were issued 1.675 Ordinary Shares of the Corporation for each of their common shares.

As a result of the merger, the Corporation reorganized its operations into nine segments: Rail Transportation, Non-Rail Transportation, Oil and Gas, Mines and Minerals, Forest Products, Steel and Industrial Products, Real Estate, Other Businesses, and Financial and Miscellaneous. Revenues, expenses, net income and identifiable assets of those segments, and similar information by principal geographic area, are shown in the 1985 Annual Report (Exhibit 13A) on pages 35, 40, 41, 42, 52 and 53, respectively. Following is information concerning the business and properties of CP Limited's operations.

RAIL TRANSPORTATION

CP Rail

CP Limited's 14,977-mile railway system, CP Rail, serves all Canadian Provinces except Prince Edward Island and Newfoundland, with lines extending from Halifax, Nova Scotia to Vancouver, British Columbia and on Vancouver Island. The system serves most of the principal cities of Canada, including Montreal, Toronto, Ottawa, Winnipeg, Regina, Calgary and Edmonton and also connects with several major railroads in the United States, including Boston and Maine, Conrail, Chessie System, Soo Line, Norfolk Southern, Union Pacific and Burlington Northern. Of the total mileage operated, 10,710 miles are owned, 3,917 miles are operated under long term or perpetual leases and trackage rights are maintained on 350 miles. At year end there were approximately 58,900 revenue freight train cars, 1,240 diesel locomotives and 5,600 units of work equipment.

The principal sources of CP Rail's freight revenue over the past three years were: coal, intermodal traffic, potash, wheat, pool cars, sulphur, import/export containers, liquefied petroleum gas, iron and steel, wood pulp and lumber.

Operating Statistics

	1985	1984	1983
Revenue tons (millions)	89.9	95.2	88.2
Revenue ton miles (millions)	63,239	67,494	62,436
Gross ton miles per train hour	120,814	124,193	121,942
Train speed (miles-per-hour)	25.0	25.1	25.0
Train weight (gross tons)	4,838	4,951	4,873

Western Grain Rates - On January 1, 1984, the Western Grain Transportation Act, (WGTA) enacted by Parliament in November 1983, became effective. This Act brought to an end the statutory grain freight rates which were fixed in 1925, and terminated the Government's ongoing payments towards the cost of operating uneconomic western branch lines.

The Act provides for payment by the Government to the railways of a sum (the "Crow Benefit") which will reach approximately $650 million annually, before income taxes, by the 1986/87 crop year. In addition, the Act provides for payment by the Government to the railways for any cost increases for the movement of grain over and above designated percentage increases to be borne by shippers. The current level of payments by the Government for cost increases is approximately $65.0 million for each crop year.

The Act called for a comprehensive review in the 1985/86 crop year of its effects on the transportation, shipping and handling of grain. This review is currently underway under the auspices of the Grain Transportation Agency which expects to file its report on suggested legislative changes with the Government in the coming months.

Government Payments - The National Transportation Act provides for compensation to carriers for uneconomic facilities and services required to be operated in the national interest. In general, this compensation includes 100% of losses on a variable cost basis incurred with respect to certain railway branch lines and payments for maintenance of low rates on certain traffic. Under an agreement with VIA Rail Canada Inc., CP Rail has been compensated for 100% of CP Rail's costs that vary with inter-city passenger trains operated for VIA. It is expected that a new National Passenger Transportation Act, which provides for lower compensation to CP Rail, will become effective in 1986.

Government payments on the accrual basis amounted to $207.0 million in 1983, $26.1 million in 1984 and $31.5 million in 1985. The decrease in these government payments has been offset by the payments to CP Rail under the WGTA amounting, on an accrual basis, to $301.6 million in 1984 and $233.0 million in 1985.

Wage Contracts - Settlements for a two-year period were reached with all the railway unions in the 1985/86 round of negotiations. These settlements provided for a general wage increase of 4% in 1985 and 1986, along with improvements in the various benefit plans. All the collective agreements expire on December 31, 1986, and negotiations on new contracts will commence in October 1986.

Environment - Expenditures required for CP Rail to comply with government environmental regulations are not material.

Competition - The major competitor of CP Rail is the Government-owned Canadian National Railways, which operates a transcontinental railway system serving most of the same principal centres as CP Rail. Local and long distance trucking companies, including CP Limited's own subsidiaries described below, as well as water, air and pipeline carriers, are competitive with the railway.

Soo Line Corporation

CP Limited owns 55.75% of the stock of Soo Line Corporation (Soo Corporation), a holding company formed at the end of 1984. Soo Corporation holds all the shares of Soo Line Railroad Company (Soo Railroad), an interstate carrier of freight by rail and truck. On February 19, 1985, Soo Corporation purchased the transportation operations and related assets of the Milwaukee Road including that company's trucking subsidiary, the Milwaukee Motor Transportation Company. Effective January 1, 1986, Soo Railroad, Milwaukee Road and the Minneapolis, Northfield and Southern Railway, a subsidiary of Soo Railroad, were merged into Soo Railroad.

The combined railroads operate approximately 7,600 miles of track in twelve states - Minnesota, Wisconsin, Illinois, North and South Dakota, Michigan, Montana, Iowa, Indiana, Missouri, Kentucky and Kansas. Soo Railroad connects with CP Rail's system at Sault Ste. Marie, Ontario, Emerson, Manitoba, North Portal, Saskatchewan and Detroit, Michigan. Revenue freight equipment consists of approximately 22,000 freight cars and 565 locomotives.

Soo Corporation also conducts real estate activities through railroads and Tri-State Land Company, a subsidiary.

Environment - Expenditures required for Soo Railroad to comply with government environmental regulations are not material.

Competition - Soo Railroad is subject to intense competition for freight traffic from other railroads, from motor carriers, and in some instances from water carriers and pipelines. In the western grain region, the Burlington Northern Railroad and motor carriers offer alternative transportation services. Mainline service between Canada and Minneapolis/St. Paul for intermediate traffic is in direct competition with the Burlington Northern. Another major competitor of Soo Railroad is the Chicago and North Western Railroad.

NON-RAIL TRANSPORTATION

Canadian Pacific Air Lines, Limited

Canadian Pacific Air Lines, Limited, wholly-owned by CP Limited and incorporated under the laws of Canada, operates an air carrier, Canadian Pacific Air Lines (CP Air), and a hotel chain, CP Hotels. Eastern Provincial Airways Limited, a wholly-owned subsidiary incorporated under the laws of Newfoundland, operates as an air carrier in Atlantic Canada. Nordair Inc., a subsidiary, incorporated under the Canada Business Corporations Act, operates as an air carrier primarily in Central Canada.

Airline Operations

CP Air has approximately 47,200 international route miles, and 8,600 Canadian route miles. CP Air operates a Canadian transcontinental service and serves the following international and transborder points: Tokyo, Hong Kong, Honolulu, Nandi (Fiji), Sydney, Auckland, San Francisco, Los Angeles, Buenos Aires, Lima, Santiago, Amsterdam, Lisbon, Rome and Milan. CP Air also operates charter flights to a number of transborder and international destinations aside from its regular scheduled services.

In addition to its Canadian transcontinental services, CP Air operates local services between a number of points in Western Canada, including the Yukon.

The following table provides certain CP Air operating statistics:

	1985	1984	1983
Revenue passengers carried (thousands)	3,580	3,494	3,270
Revenue passenger miles (millions)	6,525	6,358	5,735
Available seat miles (millions)	9,340	9,081	8,196
Passenger load factor (%)	69.9	70.0	70.0
Yield per revenue passenger mile (cents)	12.49	11.79	11.54
Cargo ton miles (millions)	201.8	208.1	184.0

At year-end 1985, CP Air's operating fleet consisted of thirty-seven aircraft - twenty-two Boeing 737-200's, three Boeing 747-200's, six DC-10-30's, three DC-10-10's and three Boeing 737-300's. The three DC-10-10's are leased from United Airlines who in turn are leasing three DC-10-30's from CP Air. On order are two Boeing 737-300's to be delivered in 1986.

Competition - CP Air competes with Air Canada, regional air carriers, and a number of large international carriers.

Eastern Provincial Airways (EPA), which was acquired in 1984, operates a regional airline serving the provinces of Newfoundland, Nova Scotia, Prince Edward Island and New Brunswick, with routes to Montreal and Toronto. EPA has approximately 6,400 Canadian route miles and 400 international route miles. EPA also operates a limited number of charter flights.

The following table provides certain EPA operating statistics:

	1985	1984	1983
Revenue passengers carried (thousands)	951	823	557
Revenue passenger miles (millions)	485	393	291
Available seat miles (millions)	836	702	539
Passenger load factor (%)	58.0	56.0	54.0
Yield per revenue passenger mile (cents)	20.8	20.7	20.8
Cargo ton miles (thousands)	5,132	4,522	3,690

At December 31, 1985, EPA's operating fleet consisted of eleven aircraft - seven Boeing 737-200's and four Hawker Siddeley 748's.

Late in 1985, Canadian Pacific Air Lines, Limited acquired 52% of the common shares of **Nordair Inc.** (Nordair). Subsequent to year-end 1985 the ownership was raised to 65%.

Nordair operates a regional airline serving Central Canada, and also serves Pittsburgh and Fort Lauderdale. It also operates charter flights, primarily to the United States. Nordair has approximately 8,300 Canadian route miles and 1,600 international route miles. At year-end 1985, Nordair's operating fleet consisted of twenty aircraft - thirteen Boeing 737-200's (three of which are being leased), five Fairchild FH227's, and two Lockheed Electra L188's.

Hotel Operations

Canadian Pacific Hotels (CP Hotels), a division of Canadian Pacific Air Lines, Limited, operates Canadian and international hotels, which it owns, leases or manages.

The following table shows the hotels operated by CP Hotels, their locations and number of rooms as of December 31, 1985:

Hotel	Location	No. of Rooms
Owned:		
Royal York	Toronto, Ontario	1,600
Le Château Frontenac	Quebec City, Quebec	500
Le Château Champlain	Montreal, Quebec	614
The Empress	Victoria, British Columbia	416
The Palliser	Calgary, Alberta	342
Chateau Airport	Calgary, Alberta	288
Chateau Halifax	Halifax, Nova Scotia	305
Le Château Montebello	Montebello, Quebec	204
Le Château de l'Aéroport	Mirabel International Airport (Montreal, Quebec)	361
Chateau Lake Louise	Lake Louise, Alberta	375
Banff Springs	Banff, Alberta	525
Red Oak Inn	Peterborough, Ontario	186
Red Oak Inn	Thunder Bay, Ontario	182
		5,898
Leased:		
Le Baron	Trois-Rivières, Quebec	102
Hamburg Plaza	Hamburg, West Germany	570
Frankfurt Plaza	Frankfurt, West Germany	591
Bremen Plaza	Bremen, West Germany	230
		1,493
Managed:		
Chateau Lacombe	Edmonton, Alberta	320
The Algonquin	St. Andrews, New Brunswick	190
Jerusalem Plaza	Jerusalem, Israel	414
Tiberias Plaza	Tiberias, Israel	272
Red Oak Inn	Windsor, Ontario	146
		1,342

The Bremen Plaza was opened in March 1985. During the first quarter of 1986, CP Hotels began to manage the Lake Okanagan Resort in Kelowna, British Columbia, and purchased a hotel and convention centre complex in Prince Edward Island. CP Hotels also recently reached an agreement to manage a hotel under construction in the Canadian Rockies to be completed in time for the 1988 Winter Olympics. Preliminary agreement was reached to sell the two Red Oak Inn properties and to cease management of the third such property in 1986. CP Hotels has also arranged to sell its Skylon Tower restaurant at Niagara Falls, Ontario in 1986. The management contract of Jerusalem Plaza expired as at December 31, 1985 and was not renewed.

CP Hotels also provides airline catering services in Canada.

Competition. The provision of hotel space is a highly competitive business and CP Hotels has a relatively small share in the markets in which it operates. Price and service are the dominant competitive elements in hotel markets.

CP Ships

Through subsidiary companies, CP Limited is engaged in container and bulk shipping operations.

CP Limited participates in container operations through Canadian Pacific Steamships, Limited, a UK corporation, Racine Terminal (Montreal) Limited, a Canadian corporation, and Centennial Shipping Limited (CSL), a Bermuda corporation.

Since January 1, 1984 the Corporation's involvement in the North Atlantic container trade has been through Canada Maritime Limited (CML), a 57% owned subsidiary of CSL. The other participant is Compagnie Maritime Belge.

This co-ordinated service involves the operation of four large container vessels between Montreal and the ports of Felixstowe (England), Hamburg, Antwerp and Le Havre.

CML is the largest cellular container operator on the Northern Europe/St. Lawrence seaway route.

CML operated a Ro-Ro service between Northern Europe and Montreal in 1985 with one chartered vessel. This was increased to two vessels in January 1986.

Early in 1986 CML, in conjunction with two other carriers, began a new container service operating between Montreal and the Mediterranean. The service is based on a charter agreement involving the use of two container vessels.

Racine Terminal (Montreal) Limited, a wholly-owned subsidiary of CP Limited, operates a common user container terminal at the port of Montreal.

Competition - CML operates in a highly competitive environment. There are five other major conference operators in this trade. In the U.S. market CML operates in a non-conference environment and has to compete not only with services via the St. Lawrence gateway into the United States but also with services operating via the United States Eastern Seaboard.

Canadian Pacific (Bermuda) Limited, a wholly-owned subsidiary incorporated under the laws of Bermuda, owns and operates a diversified fleet of tankers and dry bulk carriers principally in the service of non-affiliated companies. The fleet operates in a broad market, trading in crude oil and oil products, a range of dry bulk goods, notably grain, coal, and iron ore, and clean liquid and chemical products, such as vegetable oils and caustic soda solution.

During 1985 two crude carriers each with a total dead weight tonnage (D.W.T.) of 65,000 tons and two 57,000 D.W.T. gearless bulk carriers were sold. These ships were between 15 and 20 years old. The wholly-owned fleet at December 31, 1985 consisted of two very large crude oil carriers with a total D.W.T. of about 504,000 tons, twelve product carriers totalling approximately 373,000 D.W.T., ten geared and gearless bulk carriers of some 492,000 D.W.T., and six Panamax bulk carriers with a total of approximately 382,000 D.W.T. The majority of these vessels are currently operating in the spot market.

CP Trucks

Wholly-owned subsidiaries of CP Limited provide trucking and express services, under the name **Canadian Pacific Express & Transport Ltd.**, in 204 locations from coast to coast in Canada and in the eastern United States through 6 terminals. These subsidiaries operate approximately 1,700 trucks, 3,300 highway trailers, 200 city trailers, 600 city tractors and 500 highway tractors. Canadian Pacific Express & Transport has two main operating divisions: a General Commodity division that is essentially a less-than-truckload carrier and a Special Commodities division that includes bulk and truckload operations, household and commercial moving, parcel delivery and air courier services. These operations are widespread and are subject to competition from other carriers of all types.

During 1985 a commercial mover was acquired.

CanPac International Freight Services Inc., wholly-owned by CP Limited, engages in customs brokerage, international freight forwarding by land, sea and air for the Canadian export and import trade, bulk liquid storage and warehousing.

OIL AND GAS

PanCanadian Petroleum Limited (PanCanadian), 87.1% owned, is engaged, directly and through subsidiaries, in the exploration for and the production, transportation and wholesale marketing of crude oil, natural gas, natural gas liquids and sulphur. It is a major producer of crude oil and natural gas in Canada and has a 50% interest and an 8% interest, respectively, in two plants located at Empress, Alberta, which extract natural gas liquids (including ethane) from main transportation lines of a major pipeline company carrying natural gas out of Alberta. PanCanadian also has a 4% interest in the Syncrude synthetic crude oil project and a 35% interest in a methanol plant located in Edmonton, Alberta. In 1983 through 1985, sales of natural gas and natural gas liquids accounted for 45% of total revenues, and crude oil sales accounted for 49%.

PanCanadian conducts extensive exploration and development in Western Canada, primarily in Alberta, the location of the majority of its proved reserves and existing production. Its activities also include exploration and development programs in the Canadian frontier regions, the United States and the North Sea. Set forth below is information relating to PanCanadian's exploration and development activities, land holdings, production, petrochemicals interest and competition and governmental regulation. For information on oil and gas producing activities prepared in accordance with Financial Accounting Standards Board Statement No. 69, see Supplementary Data in the Annual Report to Shareholders; such information is incorporated herein by reference.

A net 10.1% equity interest in Panarctic Oils Ltd. (Panarctic) is held through PanCanadian and Cominco Ltd., described under "Mines and Minerals". Panarctic is engaged in oil and gas exploration in the Arctic Islands where Panarctic reported it controls oil and gas rights in approximately 30 million gross (12 million net) acres. Through Panarctic, PanCanadian participated in three wells in 1985, two of which were offshore.

Exploration and Development - PanCanadian's net working interest exploration wells drilled in 1983 through 1985 are set forth below:

	Oil	Gas	Abandoned	Facility	Total
Canada					
1985	137.6	30.8	87.3	4.0	259.7
1984	147.8	65.0	93.0	1.8	307.6
1983	91.7	47.6	66.6	0.2	206.1
United States					
1985	5.3	0.2	6.8	-	12.3
1984	4.4	0.6	9.5	-	14.5
1983	3.5	1.7	6.4	-	11.6
North Sea					
1985	-	0.1	0.4	-	0.5
1984	-	-	-	-	-
1983	-	-	0.3	-	0.3
Totals					
1985	142.9	31.1	94.5	4.0	272.5
1984	152.2	65.6	102.5	1.8	322.1
1983	95.2	49.3	73.3	0.2	218.0

Net working interest development wells drilled during the same period are set forth below:

	Oil	Gas	Abandoned	Facility	Total
Canada					
1985	122.7	77.2	7.8	3.3	211.0
1984	95.3	16.6	13.6	6.4	131.9
1983	47.1	88.2	12.7	-	148.0
United States					
1985	15.0	0.8	2.0	-	17.8
1984	8.7	0.8	2.6	-	12.1
1983	5.8	1.0	0.7	-	7.5
Totals					
1985	137.7	78.0	9.8	3.3	228.8
1984	104.0	17.4	16.2	6.4	144.0
1983	52.9	89.2	13.4	-	155.5

At December 31, 1985, PanCanadian had 24 gross wells (10.9 net wells) in the process of being drilled. Gross wells are the total wells in which PanCanadian has a working interest. Net wells are the sum of PanCanadian's fractional working interests in gross wells. A facility (or service) well is one drilled for the purpose of supporting production in an existing field. In general, an exploration well is a well drilled either in search of a new and as yet undiscovered pool of oil or gas or with the expectation of extending for a considerable distance the productive area of a partly developed pool. All other wells are development wells.

In 1985, PanCanadian's exploration and development activities concentrated on the search for crude oil, primarily in Western Canada.

During 1985, PanCanadian had a working interest in the drilling of 767 wells onshore in Canada. These wells included 344 exploratory wells and 423 development wells which resulted in 410 oil wells and 223 gas wells. In addition, PanCanadian had a royalty interest in 308 wells drilled during the year, which resulted in 191 oil wells and 78 gas wells. Offshore Newfoundland, PanCanadian participated in the drilling of two wells which were dry and abandoned.

In the United States, PanCanadian had a working interest in 27 exploratory wells and 35 development wells drilled in 1985 which resulted in 39 oil wells and four gas wells. In addition, PanCanadian had a royalty interest in 17 wells drilled which resulted in seven oil wells and three gas wells.

In the United Kingdom sector of the North Sea, PanCanadian participated in the drilling of five exploratory wells in 1985 which resulted in two gas wells.

Land Holdings - At December 31, 1985, PanCanadian held working interests in approximately 8.5 million net acres, including ownership of approximately 6.7 million acres of freehold lands and 0.4 million acres of freehold leases. In addition, 3.1 million acres of freehold lands owned by PanCanadian are leased to others with royalties or other interests reserved to PanCanadian.

Set forth below is PanCanadian's gross and net developed working interest acreage in petroleum and natural gas rights at December 31, 1985:

	Oil	Natural Gas
Gross Developed Acres	288,753	2,283,500
Net Developed Acres	224,846	1,751,185

Developed acres are those acres included in the production spacing units assigned to wells which were capable of production at the date specified. Substantially all of PanCanadian's developed acreage is in Canada. Gross acres are the total number of acres in which working interests are owned and net acres are the sum of fractional working interests owned in gross acres.

At December 31, 1985, PanCanadian's undeveloped working interest acreage holdings in petroleum and natural gas rights were as follows:

	Reservations, Permits, Licences and Concessions (1)		Leases and Freehold Titles
	Gross	Net	Net
Canada			
Western Canada	684,151	278,265	5,619,351
Frontier Canada (2)	984,252	227,905	-
United States	-	-	378,979
North Sea (U.K.)	238,620	44,117	-
Total Undeveloped Acres	1,907,023	550,287	5,998,330

(1) Reservations, permits, licences and concessions grant the holder thereof rights to explore for petroleum and natural gas, and to select leases of portions (generally 40% to 100%) of the lands subject thereto. The duration, terms and amount of work obligations and the percentage convertible to lease vary with different jurisdictions. In general, retention of rights requires specified exploration expenditures or cash payments.

(2) Excludes PanCanadian's interest in the undeveloped acreage of Panarctic.

Production - The table below sets out the net quantities of crude oil, natural gas, natural gas liquids and sulphur produced by PanCanadian during each of the three years ended December 31, 1985:

	1985	1984	1983
		(in thousands)	
Production from conventional oil and gas properties			
Crude oil (barrels)	14,705	14,258	12,472
Natural gas (Mcf)	127,083	123,300	105,230
Natural gas liquids (barrels)	2,170	1,717	1,480
Sulphur (long tons)	166	97	104
Other production			
Natural gas liquids from Empress Plants (barrels)	6,187	6,012	4,953
Methanol (tonnes)	265	265	209
Synthetic crude oil (barrels)	1,676	1,247	1,348

Net quantities are shown after deduction of the applicable mineral owner or government royalty (or tax in lieu of royalty) converted into a volume of production on a percentage basis. Production is substantially all from Canada. PanCanadian's production of oil and natural gas in Canada is limited by amounts determined by provincial and federal regulatory authorities. See "Competition and Governmental Regulation".

The number of wells producing or capable of producing, in which PanCanadian had a working interest at December 31, 1985 were as follows:

Oil		Natural Gas		Total	
Gross	Net	Gross	Net	Gross	Net
4,771	1,630.6	4,601	2,773.8	9,372	4,404.4

Over 96% of gross and net wells are located in Western Canada. The remainder are located in the United States. PanCanadian also has varying royalty interests in production from 8,099 oil wells and 4,792 gas wells in Western Canada.

PanCanadian's average sale prices and average production (lifting) costs per unit during the three years ended December 31, 1985 were as follows:

	Average Sale Price Per Unit	Average Working Interest Production Cost per Unit	Average Production Cost Per Unit
Conventional Oil (barrels)			
1985	$ 33.72	$ 7.00	$ 5.48
1984	32.37	5.40	3.92
1983	30.24	5.13	3.43
Natural Gas (Mcf)			
1985	2.53	0.47	0.38
1984	2.73	0.42	0.33
1983	2.65	0.56	0.44
Natural Gas Liquids - Empress Plant Liquids (barrels)			
1985	17.85	11.35	11.35
1984	16.17	10.84	10.84
1983	15.85	9.46	9.46
Natural Gas Liquids - Field Facilities (barrels)			
1985	24.45	- *	- *
1984	24.63	- *	- *
1983	25.54	- *	- *
Sulphur (long tons)			
1985	111.15	- *	- *
1984	67.69	- *	- *
1983	64.99	- *	- *

* Production costs of field facilities for natural gas liquids and sulphur are included in natural gas production costs.

Sale prices of natural gas in Canada are regulated by the Government of Canada. See "Competition and Governmental Regulation".

PanCanadian is not engaged in the manufacture or retail marketing of petroleum products (activities such as refining, transportation and distribution) and sells its oil and other liquids to refiners and others under short term arrangements. Natural gas liquids extracted at the Empress plants and purchased from others are sold to wholesalers in Canada and the United States under short term arrangements. Ethane extracted at the Empress plants is sold for petrochemical uses under long term contracts. Natural gas is sold primarily under long term contracts. These contracts provide for the purchase of natural gas up to specified maximum volumes at prices prevailing at the time of delivery. PanCanadian's obligation to deliver the volumes of natural gas called for under such contracts is dependent upon its ability to produce from the lands dedicated to those contracts.

Petrochemicals - PanCanadian has a 35% interest in a methanol manufacturing plant in Edmonton, Alberta. The plant has a production capacity of 2,100 tonnes of methanol per day. The other participants are a Canadian based producer and marketer of petrochemicals, which operates the project, and one of its United States affiliates which is an international producer and marketer of petrochemicals. The methanol is being sold mainly in the international market.

Competition and Governmental Regulation - The petroleum and natural gas industry operates in Canada under federal and provincial legislation regulating land tenure, production rates, pricing, environmental protection, exports, taxation and other matters.

In order to explore on lands subject to federal jurisdiction, which includes offshore areas, an exploration agreement must be entered into with the Federal Government. These agreements fix the exploration work to be done and other matters and extend for periods of five to eight years. Subject to certain limitations and exceptions, the Government of Canada retains or has the right to acquire a 25% interest in any rights granted on federal lands. Production from wells drilled on federal lands requires a production licence, the holders of which must have an aggregate Canadian ownership level of at least 50%, including the government's share. To the extent required to meet this ownership level, the holders must transfer a pro-rata portion of their interest to the Federal Government.

On October 30, 1985 the Federal Government announced that existing legislation governing federal lands will be replaced by the Canada Petroleum Resources Act. This Act will provide for the abolition of the discretionary right of the Government of Canada to acquire a 25% interest in the lands, the replacement of existing exploration agreements with exploration licences, and the issuance of significant discovery licences, where circumstances warrant, entitling a holder to exclusive exploratory rights in the defined significant discovery area, for an indefinite period of time. The Act will also provide for production licencing and a royalty regime, should commercial production become a reality. A production licence will require a Canadian ownership level of not less than 50%.

Oil and gas exploration rights in the producing provinces of Canada are held by the provinces, or are privately owned. On provincial lands, several types of agreements are employed during the early stages of exploration. These agreements define the boundaries of the exploration area and the work commitment required to maintain good standing. Satisfying the work commitment entitles the holder to convert all or a portion of the rights to lease form. Leases are granted by private owners of mineral rights on varying terms. Both provincial and private leases are maintained by production or productive capability.

The Government of Canada and the three major producing provinces of Alberta, Saskatchewan and British Columbia entered into a new agreement (the "Western Accord") on March 28, 1985 to replace the existing oil and gas pricing and taxation regime with provisions which provide for deregulation of crude oil and natural gas prices, less restrictive export regulations and the elimination of certain federal taxation and incentive programs. The Government of Canada has eliminated the following taxes or charges; the Natural Gas and Gas Liquids Tax (which includes the Natural Gas Export Levy), the Incremental Oil Revenue Tax (IORT), the Canadian Ownership Special Charge, the Crude Oil Export Charge and the Petroleum Compensation Charge. In addition, the Petroleum Incentives Program will terminate in March 1986 and the Petroleum and Gas Revenue Tax (PGRT) will be phased out by 1989.

Previous federal-provincial agreements introduced pricing systems for "old" and "new" oil including synthetic oil and oil from federal lands. The agreements provided for scheduled increases in the prices for both categories of oil, with a maximum price being established at a certain percentage (75% in the case of "old" oil and 100% in the case of "new" oil) of the international price of oil in Montreal, as defined in the agreements. On June 1, 1985 these crude oil pricing agreements were replaced by a deregulated pricing system which allows the marketplace to establish crude oil prices as a result of negotiations between producers and purchasers. The Alberta Petroleum Marketing Commission, which previous to this date marketed all production from Crown lands, now markets the Province's royalty share of this production.

Under a previous agreement between Alberta and the Federal Government, the price of natural gas destined for domestic markets east of the Province, which applies to a significant part of PanCanadian's gas production, was fixed at the Alberta border. Natural gas producers receive the Alberta Border Price plus the excess of the export price over the domestic price ("Export Flowback"), less the transmission costs of gathering and delivering the gas to the Alberta border. The price of natural gas exported to the United States is approved by the Government of Canada. There was no increase in the price of natural gas during 1985 due to an extension of the existing amending agreement and the introduction of the Western Accord.

The Federal Government announced a revised policy for pricing natural gas exports effective November 1, 1984. Under this policy, Canadian exporters were able to sell natural gas at prices directly negotiated with purchasers, subject to a minimum based on the Toronto City Gate price. United States regulatory agencies also amended their pricing requirements to permit imports of natural gas which were priced competitively in the markets being served. Accordingly, contracts for the majority of the long term licenced and flowing gas between major exporters and United States gas purchasers have been renegotiated.

The federal and provincial governments signed the Agreement on Natural Gas Markets and Prices on October 31, 1985. Under this agreement, effective November 1, 1985 purchasers and producers can negotiate directly on natural gas

prices applicable to new contracts, provided appropriate distribution contracts are available. For existing contracts the price at the Alberta border will remain at $2.94 per Mcf. until October 31, 1986, after which the domestic price of natural gas will also be determined through negotiation. Commencing November 1, 1985, for natural gas exported from Canada, the negotiated price cannot be less than the price charged to Canadians in the area adjacent to the export point. Under the Western Accord, the Government of Alberta will eliminate the Export Flowback system on October 31, 1986.

As a result of the National Energy Program (NEP), introduced in October 1980, and the subsequent energy agreements, two federal tax measures were introduced. The Petroleum and Gas Revenue Tax Act imposed a tax on royalty income and net oil and gas production revenues after 1980, which is not deductible for income tax purposes. Under the terms of the Western Accord the PGRT will be reduced by 2% per year from the 1985 effective rate of 12% on conventional oil and gas revenues and 8% on synthetic crude oil revenues until January 1, 1989, when the tax will be eliminated. In addition, the PGRT will not apply to oil and gas revenues from wells which were spudded or deepened after March 31, 1985 or from major oil sands projects which were initiated after March 31, 1985. The NEP also introduced the IORT which provided for a 50% rate of tax on incremental "old" oil revenues after deduction of related Crown levies. The tax was effective January 1, 1982, but was suspended from June 1, 1982 until its elimination on March 31, 1985.

Alberta and federal legislation created a system of petroleum incentives for qualifying exploration and development expenditures which, under the terms of the Western Accord, will terminate on March 31, 1986, subject to certain "grandfathering" provisions on certain qualifying expenditures incurred subsequent to March 31, 1986. The rate of the incentives depends on the nature of the expenditure, the area of activity, whether the recipient is Canadian controlled and its degree of Canadian ownership (COR). PanCanadian has received certification that it is Canadian controlled and its COR is at a level sufficient to entitle it to claim the maximum rate of payments for the duration of the program.

The provincial and federal governments impose systems of royalties on the production of crude oil, natural gas and related products from lands which they own. Additionally, provincial governments have enacted legislation requiring payment of a mineral tax (or equivalent) on production from freehold lands.

The Provinces of Alberta and Saskatchewan have legislation which currently allows a "royalty holiday" on royalties otherwise payable to the provinces from qualifying wells. In Alberta, qualifying wells are eligible for exemption from Crown royalty from the first year of production (or in the case of a deep exploratory natural gas well up to the first 10 years of production) to a maximum exemption of $1 million for an oil well and $2 million for a natural gas well. In Saskatchewan, qualifying new oil wells and incremental production from enhanced recovery schemes are eligible for a royalty exemption for periods ranging from one to five years.

The Government of Canada controls the export of crude oil, natural gas and natural gas liquids from Canada. There are presently no restrictions on the export of crude oil which the National Energy Board (NEB) determines to be surplus to Canadian needs and which is exported under licences for terms not exceeding one year for light crude and petroleum products, and two years for heavy crude. The Alberta Energy Resources Conservation Board (AERCB) prorates permitted crude oil production according to market demand among producing fields. The Government of Alberta has enacted legislation which enables it to limit the production of oil in Alberta to such quantities as it may from time to time deem to be in the public interest of Alberta. This legislation permits maximum volumes of petroleum production from Alberta Crown agreements or leases to be set below levels that could actually be produced. The AERCB also protects reasonably foreseeable future Alberta natural gas requirements. It has established procedures and protection formulae which determine the volumes of natural gas surplus to Alberta's requirements. The NEB licences the export of natural gas after determining volumes which are surplus to reasonable foreseeable domestic market requirements.

MINES AND MINERALS

Cominco Ltd.

Cominco Ltd. (Cominco), owned 52.6%, has numerous subsidiary and associated companies. Cominco, including its subsidiary and associated companies, is one of the world's largest mine producers and smelters of zinc and lead with major operations in eight countries. Cominco's business is grouped into the following three industry segments:

(a) Mining and Integrated Metals - principally the mining and processing of mineral ores, the production and sale of zinc, lead and copper concentrates, and the smelting and refining of concentrates to produce zinc, lead, silver, gold and various by-products including fertilizers. Cominco also produces tin, cadmium, bismuth, indium and diamonds;

(b) Chemicals and Fertilizers - principally the production and sale of ammonia, urea, potash, ammonium nitrate, ammonium phosphate, ammonium sulphate and sulphuric acid. The fertilizer products are mainly marketed under the Elephant brand name in Canada and the United States; and

(c) Other Operations - principally the production and sale of steel products, high-purity metals and compound semi-conductor materials, and the generation and distribution of electric power.

Effective May 1, 1985, Cominco's business operations were realigned with responsibility vested in two new divisions, Cominco Metals with headquarters in Vancouver, British Columbia, and Cominco Chemicals & Fertilizers with headquarters in Calgary, Alberta.

Sales of Principal Products. Sales of principal products by Cominco and its subsidiaries for the three years ended 1985 were as follows:

	(Millions)		
	1985	1984	1983
Refined Zinc	$ 310	$ 339	$ 231
Refined Lead	85	102	91
Zinc Concentrates	104	137	108
Lead Concentrates	34	34	30
Copper Concentrates	67	59	54
Refined Silver	80	110	142
Refined Gold	54	60	47
Chemicals and Fertilizers	512	532	468
Other Processed and Manufactured Goods	137	144	139
Other Products and Services	75	64	65
Total	$1,458	$1,581	$1,375

Metals. The following table sets forth average prices stated in U.S. currency for zinc, lead, copper, gold and silver in the commodity markets most affecting Cominco's revenue for such metals for the three years ended December 31, 1985.

	1985	1984	1983
Zinc (U.S. cents/lb.-U.S. Producer Price)	40.4	48.6	41.4
Lead (U.S. cents/lb.-U.S. Producer Price)	19.1	25.5	21.7
Copper (U.S. cents/lb. - London Metals Exchange Price)	64.3	62.5	72.1
Gold (U.S. dollars/troy ounce - London Gold Price)	317.3	360.4	424.3
Silver (U.S. dollars/troy ounce- U.S. Silver Price)	6.1	8.1	11.4

Zinc and Lead. Cominco mines zinc and lead at the Sullivan Mine at Kimberley, British Columbia, the Polaris and Pine Point Mines in the Northwest Territories, the Magmont Mine at Bixby, Missouri, the Black Angel Mine in Greenland, the Rubiales Mine in Spain and at the Que River Mine in Tasmania. The following table sets forth certain information with respect to the percentages of ownership of Cominco in the mines, and the measured and indicated recoverable zinc-lead ore reserves at mines of Cominco as estimated by Cominco's engineering and geological staff at December 31, 1985. The table also sets out the total ore production of zinc and of lead from such properties during the year ended 1985, without deduction of reserves and production attributable to minority interests.

	% of Cominco Ownership	Reserves - Measured and Indicated (thousands of tons) Ore Grade and Tons of Contained Metal: Ore Tons	Zinc %	Zinc Tons	Lead %	Lead Tons	Production Ore Grade and Tons of Contained Metal: Ore Tons	Zinc %	Zinc Tons	Lead %	Lead Tons
Sullivan	100	36,000	6.3	2,268	4.3	1,548	2,397	4.1	99	5.1	123
Polaris	100	21,000	14.3	3,003	3.8	798	1,032	13.1	135	3.5	36
Pine Point	51	16,000	6.7	1,072	2.7	432	2,356	8.2	193	3.0	71
Magmont	50	6,900	1.1	76	6.5	449	1,147	1.9	21	7.5	86
Black Angel	63	1,600	9.7	155	3.0	48	802	9.6	77	2.7	22
Rubiales	48	8,600	7.0	602	1.2	103	961	7.7	74	1.4	13
Que River	42	1,800	11.7	211	6.8	122	285	14.2	40	8.1	23

In the above table and elsewhere under "Mines and Minerals" herein the term "measured" is limited to those reserves at a mine which can be projected from one or more exposed faces on the basis of actual operating results. The term "indicated" refers to those reserves where there is sufficient information about the deposit or a portion of it to form the basis of a mine production forecast.

Cominco's zinc and lead concentrate production from the Sullivan Mine and all of the zinc concentrates produced by Pine Point Mines Limited, are refined at the Trail metallurgical plants. Most of Pine Point's lead concentrate production is sold to an associated company (45% owned by Cominco) that operates a lead smelter in Japan and the remainder is sold on world markets. Cominco owns a 50% interest in and operates the Magmont Mine and concentrator at Bixby, Missouri. Lead concentrate from the Magmont Mine is processed through a custom smelter which, in turn, purchases Cominco's share of the refined metal. The zinc concentrate is sold to refineries in the United States and copper concentrate is sold on world markets. Most of the zinc concentrate produced from the Polaris and Black Angel mines is sold to European refineries. The remainder is processed at a custom smelter in Europe and the refined metal is sold by Cominco. The lead concentrate is sold to smelters in Europe. The entire output of the Rubiales Mine has been contracted for sale to smelters in Spain under long term sales agreements. Ore from the Que River Mine is sold to a nearby concentrator of a non-affiliated company.

Cominco is considering replacement of its lead smelter at Trail with a modern facility. The Sullivan Mine, which has been operating for 75 years, is being modernized by the introduction of mechanized mining methods in order to improve substantially its efficiency. This program is expected to be completed in 1986.

Cominco owns the Polaris zinc-lead ore body on Little Cornwallis Island in the Canadian Arctic in the Northwest Territories, subject to a 25% royalty interest in the net profits from the project after the recovery of most of the capital costs. Of the estimated tonnage of 25.7 million tons of the Polaris ore body, there are 21.0 million tons of measured and indicated recoverable ore with a zinc grade of 14.3% and a lead grade of 3.8%. In addition to these established reserves, other mineralization is known to exist in the area of the Polaris ore body and further drilling studies will be necessary to evaluate fully these deposits.

Cominco American Inc., a wholly-owned subsidiary of Cominco, is proceeding with the evaluation and potential development of a large, high-grade zinc-lead-silver deposit in northwestern Alaska, estimated to contain 85 million tons of 17 percent zinc, 5 percent lead and 2.4 oz. of silver per ton. In 1985, the Alaska State legislature agreed to finance construction of the road and port facilities at an estimated cost of U.S. $150 million. Final negotiations on user fees are underway which will be payable when operations commence.

In December 1985, Pine Point Mines Limited announced that it had revised its production plans to respond to the unanticipated continuing depressed prices for zinc and lead concentrates and had reduced ore reserves by 35% to 16.0 million tons. The revised production plans call for the mining by late 1987 of approximately 5,000,000 tons of the most economic ore at full production rates in order to maximize the cash flow from operations and the potential return to investors. In addition to its net loss from 1985 operations, Pine Point made provision against income of $42.6 million, principally to reduce the carrying cost of assets and to allow for mine closure costs. Cominco's share of the net provision was $21.9 million.

During 1985 Greenex A/S had to revise its plans for 1986 and obtain new funding due to the depressed prices for zinc and lead. Agreements were concluded which permit Greenex to continue operations at the Black Angel Mine until at least June 1, 1986. These agreements resulted from negotiations among Greenex, its bankers, Cominco and the Greenlandic and Danish Governments.

The agreements require that Greenex must decide by April 11, 1986 whether to continue operating the mine or to discontinue operations permanently by June 1, 1986. If Greenex decides to continue operations beyond June 1, 1986, it must decide by April 10, 1987 whether to continue operating the mine or to discontinue operations permanently by June 1, 1987. If Greenex decides that operations are to be discontinued in 1986 or 1987, the Governments are entitled to acquire Cominco's shareholding in Vestgron Mines Limited upon making a tender offer to all shareholders, or to require Cominco to vote in favour of a special resolution of the shareholders of Vestgron Mines Limited authorizing the sale of all the shares of Greenex A/S. In either case the price would be based on the value that would be realized if the assets of Greenex were disposed of. If neither of these options is exercised by the Governments, the mine will be closed and the assets liquidated during the balance of the year. If Greenex decides by April 11, 1986 to continue mining activities beyond June 1 of that year, then Greenex will have to arrange new financing for its operations.

Copper. Cominco has a 100% interest in the Lake Zone ore body in the Highland Valley, British Columbia. It is the largest known porphyry copper deposit in Canada and has the potential to become one of the largest copper mines in the world. Production is at the rate of 25,000 tons of ore per day. The majority of the copper concentrate from the mine is sold to smelters in Japan.

On January 13, 1986, Cominco and Lornex Mining Corporation Limited announced that agreement in principle had been reached to combine their assets and operations in the Highland Valley of British Columbia. A program will be commenced to increase the capacity of Cominco's higher grade Valley Mine to a rate sufficient to supply both mills at a combined rate of about 120,000 tonnes of ore per day.

Cominco and Lornex will have equal control and management of the entity which will operate the project. Working and other capital requirements are to be provided 45% by Lornex and 55% by Cominco and cash generated from the combined operations is to be distributed on the same basis. The project is subject to formal approval by the Board of Directors of each company and certain governmental approvals.

Silver and Gold. In 1985 Cominco produced 10,759,400 ounces of silver of which 41% was from its own mines and the remainder from concentrate purchased from others. In 1985 Cominco produced 121,600 ounces of gold of which about 78,000 ounces came from its Con mine in the Northwest Territories, 12,800 ounces came from the Buckhorn mine in Nevada, and the remainder was recovered from concentrates purchased from others.

Chemicals and Fertilizers. Cominco owns and operates chemical and fertilizer plants in British Columbia, Alberta, Nebraska, Texas and Montana. Products produced include ammonia, ammonium nitrate, ammonium phosphate, ammonium sulphate, urea, urea sulphur, phosphate rock, sulphuric acid and urea-related solutions. Phosphate rock from the Montana mine is used as raw material in the production of ammonium phosphate at the Kimberley operation. Metallurgical operations at Trail produce sulphuric acid as a by-product primarily for use in the manufacture of fertilizers. Cominco also owns and operates a potash mine at Vade, Saskatchewan, which has measured and indicated ore reserves at December 31, 1985 of approximately 148,000,000 tons of ore with an estimated grade of 25.3% potassium oxide (K20). The expansion of production capacity at the potash mine from 900,000 tons to 1,200,000 tons per year was completed in 1982. During 1985 Cominco produced a total of 3,152,600 tons of fertilizers, chemicals and potash.

In 1985, Cominco entered into a joint venture agreement with Alberta Energy Company Ltd. (AEC) of Edmonton to construct and operate a 350,000 tonne a year anhydrous ammonia plant in the Joffre area of Alberta. The joint venture arrangement will provide AEC with 25 percent of the net revenues from Cominco's

existing Calgary and Carseland fertilizer operations and from the new project. Cominco will receive 75 percent of the net revenues from these operations. In conjunction with this project, Cominco's urea production capacity will also be expanded by approximately 100,000 tonnes a year at its Carseland operation. AEC will provide $105 million toward the estimated $116 million total cost of the project. Construction began in the fall of 1985 with completion scheduled for 1987.

Other Interests. In plants at Trail and Spokane, Washington, Cominco manufactures pure metal products and compound semiconductors for use in the electronics industry. Seventeen elements including aluminum, arsenic, gallium, gold, indium and tellurium are refined to high purity. They are then either sold directly or before sale fabricated into semiconductor packaging components, vapour deposition materials and fine bonding wire. The semiconductors cadmium mercury telluride, gallium arsenide and indium antimonide are in commercial production for use in infrared radiation detection devices and high speed micro circuits.

Cominco owns two hydro-electric plants near Trail which provide electric power to its Trail and Kimberley industrial operations. West Kootenay Power and Light Company Limited, a wholly-owned subsidiary, owns and operates four hydro-electric plants to provide electric power to residential and industrial consumers in the Kootenay and Okanagan areas of southern British Columbia.

Cominco's other interests include Western Canada Steel Limited and its subsidiaries, which produce steel bars and other products from steel scrap, and a 50% interest in The Canada Metal Company Limited, a secondary lead refiner and producer of related metal products from operations across Canada.

Associated Companies. Cominco holds a 47.1% interest in Aberfoyle Limited, an established mining and investment company, which directly and through its subsidiaries has interests in mines in Australia producing tin concentrate. Its 90%-owned Que River zinc-lead-silver mine in Tasmania commenced production in 1981. Drilling at Hellyer, an important new zinc-lead-silver sulphide discovery, near Que River, has indicated approximately 18 million tons of ore grading 18.2 percent combined zinc lead, 4.3 oz. silver and 0.1 oz. gold per ton. The orebody is open and underground exploration of the deposit had reached the mid-point by December 31, 1985. Cominco's share of the net assets of Aberfoyle totalled approximately $23.0 million at December 31, 1985.

Cominco's 47.6% owned associated company, Exploracion Minera Internacional Espana S.A. (Exminesa) has, in 1985, commenced development of its Troya zinc-lead deposit located in northern Spain. Cost of this project is estimated at $35.0 million with expected completion in 1987.

Exploration. Cominco, its subsidiaries and associated companies maintain an active exploration program in many countries. The search for new deposits continues to emphasize zinc and gold, with 42 and 43 percent, respectively, of total exploration expenditure. In addition, specific projects had silver, copper, diamonds, platinum, niobium or industrial minerals as their objective. Diamond drilling or equivalent work was carried out on over 50 properties and results on more than 20 of these were sufficiently encouraging to warrant follow-up work in 1986.

Competition. Cominco competes with other nonferrous metal producers in Canada, the United States, Europe, Pacific Rim countries and South America. In fertilizers, Cominco competes with other fertilizer producers for markets in Canada, the United States and overseas. These internationally traded commodities are sold at prevailing competitive prices in their respective markets.

Fording Coal Limited

Fording Coal Limited (Fording) was 60 percent owned by Canadian Pacific Enterprises Limited and 40 percent by Cominco during 1985. Cominco's 40% interest was sold to Canadian Pacific Limited for $87 million in the first quarter of 1986.

Fording is engaged in the development and processing of metallurgical (cleaned coking) and thermal (steam) coal reserves in southeastern British Columbia and Alberta. At December 31, 1985, Fording's estimated proven reserves of cleaned coking coal and steam coal were 179 million metric tons and 1.4 billion metric tons, respectively. Fording produced and sold 4.0 million metric tons of cleaned coking coal in 1985. During 1985, 2.2 million metric tons or 55 percent of the total sales volume were sold pursuant to Fording's long term contract with the Japanese consortium of steel mills. Fording's contract with the Japanese steel mills, comprising 11 coking coal purchasers, was entered into in 1969 and extends through 1987 inclusive; at December 31, 1985, approximately 13 million metric tons or 30 percent remained to be delivered under the terms of the original contract. The sales price and contractual tonnage to be shipped are negotiated annually under this contract. The remaining sales volume of 1.8 million metric tons was sold under contract and in spot markets to various foreign interests in 1985.

Fording is an equal participant in a joint venture with the City of Edmonton, the intent of which is to construct and operate a thermal coal mine near Genesee, Alberta. The production from the mine, which is dedicated to fuelling the Genesee Power Plant, will be sold under the terms of a cost of service arrangement. The mine is currently scheduled to commence commercial production in 1988 at a total estimated cost of $125 million including capitalized interest, of which Fording's share is 50 percent.

In 1985, Fording was awarded the TransAlta Utilities contract to operate the coal mine supplying the Whitewood Power Plant in Wabamun, Alberta. The five year mining contract, commencing January 1, 1986 requires Fording to provide approximately $3.5 million for mining support and service equipment. Fording is to be reimbursed under the terms of the contract on a cost plus incentive fee basis.

In 1985, Fording acquired a 50 percent interest in the coal properties held by the Elk River Coal Project joint venture from Elco Mining Limited. The properties are located adjacent to Fording's current mining operations in southeastern British Columbia. As consideration for the interests acquired, Fording agreed to pay Elco Mining a production royalty and has assumed the production royalty obligation to Emkay Canada Natural Resources Limited. The other participants in the joint venture are Home Oil Company Limited and The Steel Company of Canada, Limited with each holding directly and indirectly a 25 percent interest. Due to the current oversupply situation in the world coal markets, full scale development of these reserves is not likely to take place for several years.

Processed Minerals Incorporated

Processed Minerals Incorporated, an indirectly wholly-owned subsidiary, operates two divisions, Carey Salt and NYCO. Carey Salt, based in Kansas, produces and markets salt for agricultural, water softener and human consumption, and also dehydrated products. NYCO, located in New York State, mines, processes and markets wollastonite, a non-metallic mineral used in the manufacture of ceramics, plastics, coatings, refractories and fire resistant wallboard.

Steep Rock Resources Inc.

Steep Rock Resources Inc. (Steep Rock), 79.6% owned, is primarily a processor of calcium carbonate at Perth, Ontario.

Steep Rock entered a joint venture agreement on August 1, 1985 with Combustion Engineering Canada Inc., a Canadian affiliate of Georgia Kaolin Company, Inc. Both parties have an equal interest in the joint venture, which will extend over a 30 year period. The business of the joint venture is the production of ultrafine calcite products for coating and filling in the paper industry. Construction began at the site in September, 1985 and commercial production is expected in the second half of 1986, but the construction of additional capacity will extend through 1987.

Steep Rock continues to examine various opportunities in the industrial minerals field, particularly in eastern Ontario, and its gold exploration program in northwestern Ontario is continuing.

Steep Rock maintains a presence in the iron ore industry through the ownership of major ore reserves in its Lake St. Joseph property in northwestern Ontario.

FOREST PRODUCTS

CIP Inc.

CIP Inc. (CIP), a wholly-owned subsidiary, is an integrated forest products company operating in New Brunswick, Quebec, Ontario and British Columbia. It is engaged in the production of newsprint, bleached and unbleached kraftboard, corrugating medium, shipping containers, multiwall bags and milk cartons, paper pulps, facial and bathroom tissues and household towels, building materials and wood products.

On January 1, 1985, Pacific Forest Products Limited, a wholly-owned subsidiary of Enterprises, and Tahsis Company Ltd., wholly-owned by CIP, were amalgamated under the name CIP Forest Products Inc. On July 26, 1985, a series of steps was completed which combined the assets and operations of CIP Inc. and CIP Forest Products Inc. and transferred the tax loss carryforwards and investment tax credits of CIP Inc. to PanCanadian Petroleum Limited.

Shipments of principal products and net sales for the three-year period ending December 31, 1985 were:

	1985	1984	1983
Shipments			
Newsprint (thousand tonnes)	1,081	1,136	922
Kraftboard and Packaging Material (thousand tonnes)	360	383	351
Pulp (thousand tonnes)	273	61	53
Tissue (thousand tonnes)	66	62	60
Total (thousand tonnes)	1,780	1,642	1,386
Lumber (million board feet)	351	193	212
Net sales (millions)	$1,558	$1,582	$1,335

Approximately 40% of CIP's sales were made to the United States market and 19% to the overseas market. Prices on most export sales are quoted in U.S. dollars and as a result revenues and net income are affected by fluctuations in the rate of exchange between Canadian and U.S. dollars.

CIP is one of the world's largest producers and marketers of newsprint, accounting in 1985 for approximately 4% of the free world market. CIP is one of only three suppliers that have a significant market share position in all regions of North America east of the Rockies in both standard and gravure grade newsprint. CIP also has a significant presence in newsprint traded internationally in offshore markets. The three newsprint mills of CIP are located in Eastern Canada. The mill at Gatineau, Quebec with a capacity of

480,000 tonnes per year is one of the largest newsprint producing units in the world and is dedicated primarily to standard grade newsprint marketed in eastern North America. The mill at Dalhousie, New Brunswick, in which CIP has a 67% equity interest, has a capacity of 355,000 tonnes per year and produces standard as well as groundwood specialty grades of newsprint marketed offshore and in eastern North America. The Trois-Rivieres, Quebec mill has a capacity of 315,000 tonnes per year and is dedicated to groundwood specialty grades. A $60 million modernization project currently underway at this mill involves an increase in supercalendering capacity and continued development of higher quality grades.

The kraftboard and packaging operations of CIP consist of mills and plants located principally in Eastern Canada. The mill at La Tuque, Quebec has a capacity of 224,000 tonnes per year of linerboard and the Matane, Quebec mill has a capacity of 82,000 tonnes per year of corrugating medium. The La Tuque mill also produces bleached board with a capacity of 90,000 tonnes per year. There are container plants in St. John's, Newfoundland, Pointe-aux-Trembles and Vaudreuil, Quebec and Burlington, London, Markham and Rexdale, Ontario. CIP's bag plants in Pointe-aux-Trembles, Quebec, and Regina, Saskatchewan, manufacture multiwall shipping sacks. The Pointe-aux-Trembles plant also produces printed rolls and sheets and uses coating and laminating extruders for a wide range of polyethylene coated products. Three plants located at St. Leonard, Quebec, Markham, Ontario, and Calgary, Alberta, convert CIP's polycoated milk carton stock into cartons for packaging liquids such as milk and juice. Its plants have a capacity of 31,000 tonnes per year.

The pulp operations of CIP consist of two mills which produce sulphate pulp. The mill at La Tuque, Quebec has an annual capacity of 148,000 tonnes and the mill at Gold River, on the west coast of Vancouver Island, has an annual capacity of 232,000 tonnes. A substantial portion of CIP pulp is used by other CIP mills in the production of newsprint and tissue.

Through Dominion Cellulose Limited and its wholly-owned subsidiary, Facelle Company Limited (Facelle), CIP is a major Canadian manufacturer of consumer tissue goods at its Toronto, Ontario plant which has a capacity of 90,000 tonnes per year. CIP is engaged in the manufacturing and Facelle in the marketing of facial tissue, bathroom tissue and household towels in both national and private label brands for the consumer market. Facelle holds established consumer franchises (product loyalty), a national distribution network and strong trade relationships.

Canexel Hardboard Inc., a wholly-owned subsidiary of CIP, operates a plant located at East River, Nova Scotia, which manufactures industrial hardboard products, interior wall, ceiling and door panels and exterior sidings. It distributes its products nationally through building materials distributors, dealers and franchised contractors and also exports some of its products to the United States.

The wood products operations of CIP consist of 3 lumber manufacturing complexes and 1 lumber remanufacturing plant in British Columbia with combined cutting capacity of 445 million board feet of lumber per year. CIP also has a 60% equity interest in Mayo Forest Products Ltd. which owns a sawmill specialized for the Japanese market with a rated capacity of 95 million board feet per year. Early in 1985, CIP permanently closed its Nanaimo sawmill operation. Substantially all of CIP lumber production is marketed on the eastern seaboard of the United States and in the Pacific Rim. About 70% of CIP's log production in British Columbia is used in its own manufacturing operations while the remainder is mostly marketed in the Vancouver log market.

In support of its manufacturing operations, CIP has timber harvesting licencing arrangements in the Provinces of Quebec, New Brunswick and British Columbia, plus, in the Provinces of Quebec and British Columbia, additional wood volume harvesting rights. The area held under government licences is 17,589 square miles. CIP also owns in fee 2,608 square miles of timberlands. These timberlands are well situated in relation to CIP's manufacturing facilities and the harvest from them, supplemented by the purchase of wood chips and round wood, is adequate to support CIP's operations on a continuing basis.

Great Lakes Forest Products Limited

Great Lakes Forest Products Limited (Great Lakes) is 54.3% owned. Its principal manufacturing facilities consist of four newsprint machines, two kraft pulp mills, a stud lumber mill and a waferboard plant all at Thunder Bay, Ontario, and a kraft pulp mill, a fine paper mill and a stud lumber mill situated at Dryden, Ontario.

The wood resources supplying these facilities encompass some 20,500 square miles on which Great Lakes has exclusive cutting rights under a combination of long term licences and forest management agreements with the Province of Ontario. These timberlands are well situated in relation to Great Lakes' manufacturing facilities and the harvest from them is adequate to support Great Lakes' operations on a continuing basis.

Shipments of principal products of Great Lakes and its net sales for the three years ended December 31, 1985 were:

	1985	1984	1983
Shipments			
Pulp and Paper			
Newsprint (thousand tonnes)	379	398	393
Kraft Pulp (thousand tonnes	491	559	531
Fine Papers (thousand tonnes)	82	59	46
Total (thousand tonnes)	952	1,016	970
Building Products			
Lumber (million board feet)	151	162	137
Waferboard (million square feet - 3/8")	107	107	73
Net Sales			
Pulp and Paper (millions)	$ 541	$ 555	$ 453
Building Products (millions)	51	47	42
Total Net Sales (millions)	$ 592	$ 602	$ 495

In 1985 approximately 80 percent of Great Lakes' net sales were made to the United States market and approximately 6 percent were sold to other export markets. For both 1983 and 1984 these percentages were 82 percent and 5 percent, respectively. The remaining net sales, which are largely fine papers and building products, are to domestic markets.

Great Lakes' newsprint is sold to newspaper publishers in the northern and central United States. Kraft pulp is sold to converters in a wider area of the United States, with some tonnage being shipped offshore, principally for use in consumer products and for making fine paper. Kraft pulp and newsprint are generally sold under long term contracts with provisions for price changes. Fine papers are sold largely to customers in central and western Canada mainly for use as printing, writing and envelope papers. Great Lakes markets its lumber and waferboard through a separate exclusive sales agent.

On November 27, 1985 Great Lakes, as managing partner of Ponderay Newsprint Company, announced the decision to delay construction of the 154,000 metric-ton-per-year newsprint mill in northeastern Washington State due to poor market conditions. The four U.S. newspaper publisher partners in this project concur with Great Lakes in the desire to proceed when economic conditions permit.

Great Lakes recently announced its intention to close its waferboard plant on May 1, 1986 unless a satisfactory alternative can be found to improve its cost competitiveness with other producers. Some 100 employees in mill and woodlands operations would be affected by the closure. Great Lakes' financial performance would not be significantly affected. Great Lakes is pursuing a number of cost reduction proposals with representatives of government, major suppliers and labour unions, which if accepted, would allow continued operation of the facility.

Commandant Properties, Limited

Commandant Properties, Limited, a wholly-owned subsidiary, owns approximately 100 square miles of fee simple land, mostly forest, at Montebello, Quebec, and is engaged in the cutting and selling of pulpwood and sawlogs.

STEEL AND INDUSTRIAL PRODUCTS

The Algoma Steel Corporation, Limited

The Algoma Steel Corporation, Limited (Algoma), 61.2% owned, is a vertically integrated steel producer with production facilities located at Sault Ste. Marie, Ontario. It has an annual raw steel capacity exceeding three million tons. Algoma produces and sells a variety of finished steel products including plate, sheet and strip, structurals, rails and fastenings, and seamless tubular products, as well as coal, coke and coal tar chemicals.

The Canadian operations of Algoma are comprised of three divisions: the Ore Division, which mines and beneficiates iron ore at Wawa, Ontario; the Steelworks Division, which operates a steel plant and produces finished rolled steel at Sault Ste. Marie, Ontario; and the Superior Limited Partnership, (with CP Limited), which produces seamless tubular products at Sault Ste. Marie, Ontario. United States activities, which support Algoma's iron and steel production, include participation in the Tilden iron ore joint venture in Michigan and the operation of coal mines in West Virginia through Cannelton Industries, Inc.

The following table summarizes Algoma's sales, production and shipments for the 1983-1985 period:

	1985	1984	1983
Sales (millions)	$1,178	$1,104	$ 860
Year-end order backlog (millions)	151	157	162
Raw Steel Production (thousand tons)	2,742	2,528	2,306
Shipments - Steel Products (thousand tons)	2,063	1,951	1,757
Shipments of Finished Steel			
Plate & Sheet	64%	64%	66%
Structurals & Rails	17	21	24
Seamless Tubes & Skelp	14	15	8
Other	5	0	2
	100%	100%	100%

In 1985, Algoma was the third largest producer of raw steel in Canada, accounting for approximately 17% of domestic production. Shipments of steel products accounted for approximately 90% of its consolidated sales. These products were sold throughout Canada (primarily in Ontario) and in certain regions of the United States. Algoma competes not only with other Canadian and United States steelmakers, but also with European and Asian steel companies.

About 98% of Algoma's iron ore requirements (which were 3.5 million long tons in 1985) are obtained from properties which it owns or in which it has an equity interest. Algoma owns a mining and sintering operation at Wawa, Ontario, with annual capacity to produce 2.0 million long tons of sinter. Proven and probable recoverable reserves (with a grade of approximately 35% iron) were estimated at January 1, 1986 to be sufficient to produce 2.0 million long tons of superflux sinter (48% iron) annually for approximately 19 years. Through a subsidiary, Algoma holds a 30% interest in the Tilden Mine joint venture which mines and pelletizes iron ore at its property in northern Michigan. Pellet production in 1985 was 5.6 million long tons and in 1984 was 5.7 million long tons. Proven and probable recoverable reserves from the Tilden Mine consist of crude ore (with a grade of approximately 36% iron) sufficient to produce 8.0 million long tons of pellets (65% iron) annually for approximately 36 years.

Most of the metallurgical coal required for Algoma's operations is supplied by Algoma's own mines in West Virginia. Current annual capacity of these mines is approximately 1.0 million tons of high volatile metallurgical coal and 1.3 million tons of low volatile metallurgical coal which are blended in prescribed portions and charged in its ovens to produce coke of the quality used in its blast furnaces. In 1985, production of high volatile coal was approximately 0.9 million tons and of low volatile coal was approximately 1.2 million tons. Low volatile coal production exceeds Algoma's requirements and 5 million tons are being sold under a 12-year contract under which shipments commenced in 1976. In 1985, sale of metallurgical coal to third parties totalled 0.4 million tons and steam coal shipments totalled a record 1.3 million tons.

Metallurgical coal is recovered by both surface and underground mining. Proven and probable recoverable reserves of high and low volatile metallurgical coal were estimated at December 31, 1985 to be sufficient to permit the mining of coal at planned levels of operations for over 30 years.

AMCA International Limited

AMCA International Limited (AMCA), owned 16.2% directly and 34.5% by Algoma, is an operating company engaged worldwide in the design, engineering, manufacturing, marketing, installation and financing of a broad range of industrial products, construction equipment, engineering and construction services and machine tools. Although the operations of AMCA and its subsidiaries are conducted primarily in the United States and Canada, certain additional manufacturing and distribution facilities are located in Europe, Africa, the Far East and Australia.

Construction Products. Construction Products consists of two divisions which manufacture equipment used throughout the world for heavy and light construction projects, and for harvesting and processing pulpwood and other forest products. The division's products, which include equipment for lifting, digging, pile-driving and compacting, are sold to government agencies, customers in general and marine construction businesses, and other distributors and end-users.

The Compaction Equipment division is a leading producer of a complete line of compaction equipment, which is used in construction, road building and sanitary landfill compaction. Products are marketed under the "BOMAG" name worldwide, on a direct basis and through independent distributors, to all segments of the general construction industry and to government agencies.

The Cranes, Excavators and Material Handling Equipment division manufactures and sells, principally through independent distributors, a broad line of hydraulic cranes for the construction industry, which are self-propelled on truck carrier or crawler mountings, and a broad range of heavy-duty hydraulic excavators. These products are marketed throughout the world under the "Lorain" and "Koehring" names. With respect to these products, the division competes with three large and several small hydraulic crane manufacturers and with three large and numerous small hydraulic excavator manufacturers. The division also imports from a Japanese manufacturer and distributes in North America a line of hydraulic excavators. In addition, the division produces medium size material handling equipment, including a range of "SKYTRAK" forklift trucks, which are sold primarily in the United States through distributors in competition with many manufacturers of similar size. Through Koehring Canada, the division manufactures specialized machinery for the harvesting and processing of pulpwood and other forest products. In addition, Koehring Canada manufactures a limited line of paper mill machinery such as pulp grinders sold under the "Waterous" trade name. Koehring Canada's products are sold through distributors and directly to end-users primarily in North America.

The major competitive factors affecting all of this segment's products are price, including financing terms, and performance.

Engineering and Construction Services. The Engineering and Construction Services segment comprises three divisions and offers a wide range of design, engineering and construction capabilities which are enhanced by the use of highly sophisticated computer software. The segment serves agricultural, industrial, energy, marine, petroleum, chemical and bulk material handling customers.

The AMCA Buildings division is comprised of four units: JESCO, Inc., Varco-Pruden Buildings, Stran Buildings and Construction Services. Through three product lines (Varco-Pruden, Stran and Quonset), this division custom designs and manufactures pre-engineered metal building systems and markets them

through more than 1,500 builders in the United States and through subsidiaries of AMCA in the rest of the world. JESCO, Inc. is a construction company principally engaged in the design and construction of industrial and commercial facilities and the construction of petroleum process plants in the southeastern United States. AMCA believes that at present this division competes domestically and internationally with one larger and many smaller suppliers of pre-engineered metal buildings and with many suppliers of conventional buildings. The pre-engineered building business has increased its sales at the expense of the conventional building industry. With regard to larger, more complex buildings, competition is principally on the basis of flexibility of design and design capability. With regard to smaller and less complex buildings, the competitive factors are price, delivery time and product quality.

AMCA Engineers & Constructors includes Litwin Engineers & Constructors, Litwin Corporation, ORBA Corporation and Litwin S.A. Litwin Engineers & Constructors and Litwin Corporation specialize in the design and construction of petroleum refineries, petrochemical and chemical plants and undertakes contracts throughout the world. Its services include a complete package of process and mechanical design, equipment purchasing, inspection, cost control, construction supervision, project staffing, installation of facilities and plant start-up. Litwin Engineers & Constructors has developed an expertise in the area of upgrading oil refineries to allow them to maximize the value of refined product derived from lower quality crude oil. ORBA Corporation provides turnkey engineering and construction services for the building of facilities to handle and transport coal and other bulk materials and also provides operating services for completed facilities. Litwin S.A. is an engineering and contracting firm specializing primarily in the design of petrochemical plants throughout the world outside the United States. Historically, Litwin S.A.'s principal areas of operation have been in Eastern Europe and the Third World. This unit generally contracts to supervise construction of plants it designs but does not provide actual construction services. AMCA Engineers & Constructors competes worldwide with many larger and smaller firms for the construction of petrochemical plants, petroleum refineries and bulk-handling facilities. For these facilities, although price is important, contracts are generally awarded based on technical competence and, additionally in Litwin S.A.'s case, the ability to obtain financing support. The division also provides petroleum refinery maintenance for one customer in the Caribbean.

The Marine Operations division serves the marine construction industry through two units: IMODCO and MENCK. IMODCO pioneered the development of offshore single-point mooring (SPM) terminal systems used for mooring bulk carriers while loading and unloading various liquid cargoes, primarily crude oil and refined petroleum products, but occasionally solids in slurry form. IMODCO engineers, procures and installs SPM terminal systems internationally in competition with one large and several small competitors. SPM terminal systems are sold primarily to oil companies, with a small percentage of sales to mining companies and various government agencies. Customers choose such products

principally on the basis of price, followed by performance and service. AMCA believes IMODCO is a leader in developing the technology to moor vessels permanently to mooring terminals through a yoke which permits a single vessel to control production from undersea wells, perform simple gas/oil separation and store the semi-processed crude, all without having to install permanent offshore rigs. This is an important development, as oil companies continue to exploit less profitable oil wells where production facilities may be required for a period of months rather than years. MENCK produces pile hammers for both offshore and onshore applications. MENCK is one of many manufacturers of hammers for onshore application. With respect to offshore hammers, which account for a major portion of MENCK's sales, AMCA believes that MENCK is the leading manufacturer in the world of traditional steam hammers and the newer hydraulic variety for above and underwater application.

Industrial Products. The Industrial Products segment, consisting of six units, supplies to manufacturing customers in the aerospace, energy, capital goods, marine and food processing industries a broad line of products including machine tools, sanitary processing and packaging equipment, precision aerospace components, cranes, and drilling equipment.

The Machine Tools division consists primarily of the machine tool related operations of Giddings & Lewis, a leading designer and manufacturer of an extensive range of high precision heavy duty metal-cutting machine tools, automatic assembly machines, transfer line machinery, complete manufacturing systems, special machinery designed for a particular application, drill point grinders, industrial balancers and related tooling and accessories. It is a leading producer of computer numerically controlled (CNC) machine tools with or without automatic tool changing. It also produces grey iron and ductile castings for use in the manufacture of its machine tools as well as for sale. Giddings & Lewis supplies related products including: computer numerical controls, programmable industrial computers and microcomputers for the machine tool industry and other industrial applications, executive computer systems, electronic measuring equipment and diagnostic devices and services, printed circuit boards, and load simulators. There are numerous manufacturers of machine tools, domestic and foreign, whose products are directly competitive with those of Giddings & Lewis. Foreign competition has increased in strength significantly in recent years. Competitive factors for all of Giddings & Lewis' products include delivery schedule, price and product performance.

The Cherry-Burrell division is a major producer of sanitary packaging and processing equipment for the dairy, beverage, cosmetic, food, pharmaceutical, chemical and fluid handling industries. Major product lines include: gable-top beverage carton fillers, process equipment such as homogenizers and ice cream machines, stainless steel fittings and valves, tanks and vessels. During 1985, the division improved its technology for production of hard capsule machines by acquiring an Ontario-based product line. Two new products introduced include a computerized high-speed system for slicing and weighing bacon and an ice cream freezer. AMCA believes that at present this division is

the leading producer of high capacity carton fillers in North America and is one of the leading producers of aseptic process equipment in the United States. Between one-third and one-half of Cherry-Burrell's production of high capacity carton fillers is exported, mainly to Europe and South America. Competition in the sale of packaging and process equipment is significantly affected by performance, efficiency, quality and service, whereas competition in the sale of stainless steel fittings and valves, tanks and vessels is based more on price.

The Aerospace division is comprised of two units: Fenn Manufacturing and Monroe Forgings. Fenn is one of several qualified producers of precision aerospace components. Fenn principally produces helicopter components, which are purchased primarily by a few major customers. It also produces metal processing equipment for the ferrous and non-ferrous metal industries for rolling, shaping, forming, drawing and cutting metal strip, rod, wire and tube, in competition with numerous companies. Monroe Forgings produces a wide variety of alloy metal forgings used in the manufacture of jet engines, machine tools and bearings. It competes directly with a number of specialized forge shops which work with high temperature, corrosion-resistant special alloy metals.

The Marine and Industrial Crane division is comprised of two units: Clyde and Morgan/Provincial. Clyde designs and manufactures revolving "Whirley" cranes and specialized equipment for lifting and pulling extremely heavy loads. Unit Crane, part of the Clyde division, manufactures and distributes a line of pedestal cranes. The division serves the marine and general construction, stevedoring and shipbuilding industries. Its products are used outside the United States for offshore construction and in the United States for bulk stevedoring (principally midstream). Cranes for these uses are generally custom-designed to meet the specific needs of the customer. AMCA believes that at present Clyde is one of the leading manufacturers, on a worldwide basis, of heavy cranes for the construction of offshore drilling and production platforms, pipelines and modules. Competition in the sale of such cranes is affected by the customer's emphasis on technical reputation and on the ability of manufacturers to design to the customer's needs. The Morgan/Provincial operation manufactures cranes used in steel mills and for material handling and general industrial purposes. Morgan/Provincial also produces integrated material handling systems. Cranes are marketed under the Provincial name principally in Canada and under the Morgan name principally in the United States. AMCA believes that Morgan/Provincial is the leading manufacturer of cranes for steel mills in Canada. Morgan/Provincial competes with several North American manufacturers in a highly competitive pricing environment.

The Industrial Components division manufactures hydraulic cylinders and valves, rotary swivels, compressed gas cylinders, pressure vessels and specialized chemical shipping containers. These products are used in the automotive, construction, mining, machine-tool, and agricultural equipment industries. The products of this division are sold in competition with many manufacturers,

predominantly in the United States, and are generally sold directly to the manufacturers of mobile construction machinery, drilling and agricultural equipment as well as other industrial, government and military users. Its products are generally highly engineered to customer specifications, with the major competitive factors being quality and service, although price and delivery have recently become important factors.

The Speedstar division manufactures and sells water well drilling equipment, principally through distributors, in competition with several large and small competitors. It also manufactures shallow oil and gas drilling equipment. A major portion of Speedstar's sales are international, primarily to the Middle East. Although price is an important short term factor in the drilling equipment industry, the reputation of the manufacturer and flexibility to engineer the product to customer needs are greater long term competitive considerations.

Steel Products and Services. During the past century AMCA has established a reputation for its ability to work with steel. Its capabilities include producing steel, fabricating steel products and erecting structural steel for processing plants, buildings, bridges and other commercial and industrial structures. The Steel Products and Services segment is comprised of three divisions and a 51% interest in Dominion-Bridge-Sulzer, Inc. The segment serves the general construction, petrochemical, steel, electric utility, materials handling, transportation and marine industries. AMCA believes that it is the leading steel fabricator and erector in Canada, in competition with numerous small Canadian companies.

The Eastern Canada division fabricates and erects structural steel and bridges throughout Eastern Canada and in various export markets, and manufactures specialty steel products such as steel grating. The division operates steel service centers which maintain a comprehensive inventory of steel products for sale to general contractors, equipment manufacturers and other users. AMCA believes that the division competes with numerous large and small competitors. Price is an important competitive factor, along with service and technical capability.

The Western Canada division produces pressure vessels, towers for communications and power lines, line hardware, mining equipment and machinery, oil well pumping units, general platework, open web joists, reinforcing steel and other fabricated steel products. The division's steel service centres conduct the same line of business as in the Eastern Canada division. Construction services offered by the Western Canada division include steel erection, machinery installation, millwrighting, pipefitting, equipment rental and construction management. The division, under license, designs, engineers and constructs in Western Canada and worldwide, coal preparation plants which crush, screen, classify, weigh and load coal. AMCA believes that the division competes with numerous large and small competitors. Competitive factors are similar to those affecting Eastern Canada.

The Manitoba Rolling Mills division produces steel by converting scrap in electric furnaces, by continuous casting and by in-line rolling ("mini-mill"). The rolling mill is one of the most modern of its type in North America with an annual production capacity of 250,000 tons of bars and light sections. The mill is also capable of producing a wide range of high quality standard steel products as well as special sections for particular customer requirements, such as a proprietary line of grader blades, elevator guide rails, ring gear sections for the auto industry and rail anchor sections. The division competes primarily with several other Canadian mini-mills in selling standard products, primarily on the basis of price and delivery, and competes with numerous producers of all sizes in selling specialty products, primarily based on ability to meet a particular customer's specifications.

Dominion Bridge-Sulzer, Inc. is a joint venture corporation owned 51% by AMCA and 49% by Sulzer-Escher Wyss A.G. of Zurich, Switzerland (Sulzer). This company produces a wide variety of highly engineered products including nuclear systems and components, pressure vessels, waste heat boilers, incinerators, kilns, grinding mills, ship loaders and container cranes, and offers a full range of construction services. In addition, this company engineers and manufactures "Straflo" hydraulic turbines and other hydraulic products under license from Sulzer. The company faces several different competitors in each of the areas it serves. In general, contracts are awarded based upon bids from among a small group of competitors who have been qualified for the particular contract. Pursuant to an agreement effective July 1, 1984, between AMCA and Sulzer, AMCA assumed financial responsibility for the structural and mechanical part of the operations while Sulzer has assumed financial responsibility for the hydraulic part of such operations. Profits and losses of each part will be divided 75% to the shareholder financially responsible and 25% to the other shareholder.

Financial, Marketing and Licensing Services. This segment of AMCA's business provides financial, marketing, licensing and purchasing services for AMCA companies as well as for third parties.

AMCA's financing activities are performed in North America by two subsidiaries, AMCA International Finance Corporation and AMCA International Finance Limited, and outside North America by another subsidiary, AMCA Netherlands B.V. (AMCA B.V.). AMCA International Finance Corporation and AMCA International Finance Limited offer a broad range of wholesale and retail product financing services such as floor plans, installment sales plans, lease purchase plans and fleet rental plans. AMCA has entered into certain support agreements with AMCA International Finance Corporation and AMCA International Finance Limited. AMCA B.V. provides similar purchaser financing for the sale of AMCA's products outside North America. In addition, AMCA B.V. lends money to various of AMCA's U.S. and other subsidiaries. AMCA B.V.'s earnings, which are subject to lower rates of income tax than those of AMCA's North American operations, are generally reinvested in its financing and lending activities. AMCA Trading S.A. is an international trading company which purchases, from worldwide sources, raw and manufactured materials and components for resale to AMCA and markets internationally certain AMCA products principally in Europe and Asia. Span Holdings Limited owns, or has under license, rights to market outside North America, primarily through distributors and agents, a variety of AMCA products including pre-engineered metal buildings, "Whirley" cranes, shipdeck equipment, hoists and derricks.

REAL ESTATE

Marathon Realty Company Limited (Marathon), 100% owned, is engaged in the management and development of real estate. Real estate developments owned by Marathon in Canada and the United States include: shopping centres, such as Place Laurier in Ste. Foy, Quebec, Dufferin Mall in Toronto and Orchard Park in Kelowna, British Columbia; office buildings, such as Place du Canada in Montreal, University Place in Toronto, Palliser Square in Calgary and 595 Market Street in San Francisco; industrial and aviation-related buildings in and near major cities; and also several industrial and business parks either completed or under development, such as Mayfair Industrial Park in Coquitlam, British Columbia and International Commerce Centre in Hayward, California.

In October 1985 Marathon acquired 70% of the Herring Group's partnership interests in four recently developed shopping centres and six sites for future malls in the southern United States. Marathon also acquired 70% of an associated development and management company.

The following table indicates Marathon's completed properties as of December 31, 1985:

	Number of Buildings	Leasable Area (000's of square feet)	
Canada:			
Shopping Centres	26	6,768	(1)
Office Buildings	41	8,255	(2)
Industrial Buildings	74	2,909	
Aviation - Related Facilities	18	1,829	(3)
Residential Apartment Buildings (424 units)	2	330	
United States:			
Shopping Centres	4	1,888	(4)
Office Buildings	7	1,525	(5)
Industrial Buildings	27	763	

(1) Includes interests of 76% in 192,000 square feet, 75% in 258,000 square feet, 55% in 34,000 square feet and 50% in 237,000 square feet.

(2) Includes interests of 54% in 613,000 square feet and 33% in 753,000 square feet.

(3) Includes interests of 76% in 1,319,000 square feet and 38% in 510,000 square feet.

(4) Includes 70% partnership interest in 833,000 square feet.

(5) Includes 50% interest in 617,000 square feet.

Marathon's gross revenue from rental properties for the period 1983 through 1985 were as follows:

	1985	1984 (in thousands)	1983
Building Rentals			
Shopping Centres	$ 77,099	$ 69,153	$ 61,104
Office Buildings	103,745	94,981	92,869
Industrial Buildings and Aviation-Related Facilities	31,069	30,594	29,064
Residential Buildings	2,258	2,079	2,253
	214,171	196,807	185,290
Land Rentals			
Agricultural	5,588	5,409	5,211
Non-agricultural	11,542	11,541	10,473
	17,130	16,950	15,684
Total Rentals	$231,301	$213,757	$200,974

The provision of rental space in shopping centres, office buildings and industrial complexes is a highly competitive business and Marathon occupies only a small share of the market.

OTHER BUSINESSES

Maple Leaf Mills Limited

Maple Leaf Mills Limited (Maple Leaf), a wholly-owned subsidiary, is engaged in the processing, distribution and marketing of a variety of food and agricultural products, primarily in Canada.

Maple Leaf's revenues by major class of business for the years 1983 through 1985 were as follows:

	1985	1984 (in millions)	1983
Agricultural Products	$ 495	$ 603	$ 690
Flour and Other Food Products	383	370	332
	$ 878	$ 973	$1,022

Agricultural Products. Encompasses the production and marketing of animal and poultry feeds; processing of poultry products; trading and merchandising of grain in Canada and the U.S. and the operation of grain elevators; and recycling of animal waste by-products into fats and protein for edible oils, animal feeds and industrial products through the operation of one of Canada's largest rendering businesses. Maple Leaf also provides management assistance to associated companies overseas.

In July 1985, Maple Leaf sold its 50% interest in Maple Leaf Monarch Company, which processes oil seeds and sells vegetable oils and meals.

Flour and Other Food Products. Includes the milling and marketing of a variety of wheat flours for food manufacturers and the production and marketing of consumer grocery products, bakery goods and pet foods under several brand names. Maple Leaf is one of Canada's largest flour millers and has approximately 25% of total milling capacity in Canada.

Through its subsidiaries, Corporate Foods Limited and Eastern Bakeries Limited, Maple Leaf manufactures and sells a substantial portion of the bakery products marketed in Eastern Canada. Maple Leaf also has a 40% interest in McGavin Foods Limited, which supplies a significant amount of the retail baked bread and roll market in the western Canada retail market.

Maple Leaf's competition in Canada comprises two large national flour millers, as well as a number of regional and local millers.

Telecommunications

CNCP Telecommunications (CNCP), is an equal partnership between CP Limited and Canadian National Railways (CN). The partnership is a comprehensive communications system providing a full range of voice and data services for the business community as well as telegraph services for the general public. Telex, telegraph and other services are made available throughout the world through interconnecting arrangements in the United States with various inter-regional carriers, primarily Western Union Telegraph Company, and overseas through Teleglobe Canada.

CNCP's operations compete with Telecom Canada, of which Bell Canada is the largest member.

An application, made late in 1983, for enhanced interconnection to enable CNCP to compete directly with the telephone companies for the provision of long distance telephone service, was denied by the Canadian Radio-television and Telecommunications Commission in August 1985. CNCP has responded to the denial by asking for a review of the decision. As a basis for reconsidering the application, the submission cites new developments, updated data and errors in the original decision. A response is expected within the year.

Telecommunications Terminal Systems is another equal partnership with CN providing business telephone users with a full telephone equipment interconnect service.

Syracuse China Corporation

Syracuse China Corporation, a wholly-owned subsidiary, manufactures one of the largest selling brands of commercial chinaware in the United States and is a major manufacturer of commercial chinaware in Canada. Plants are located in Syracuse, New York, Joliette, Quebec and, following the acquisition in December 1984 of Mayer China Company, in Beaver Falls, Pennsylvania. Markets include commercial and institutional segments of the food service industry.

FINANCIAL AND MISCELLANEOUS

Canadian Pacific Securities Limited, a wholly-owned subsidiary, raises monies through bank loans, short term promissory notes and medium and long term debt in order to provide financing for various companies in the CP Limited group. It is also active in both domestic and international money markets.

Chateau Insurance Company (Chateau), which is 99.98% owned, is federally licenced to transact most classes of insurance except life and annuities. Chateau concentrates on the underwriting of commercial and industrial accounts. Chateau was sold in March 1986.

Arion Insurance Company Limited, 100% owned, provides corporate insurance services and international reinsurance and offers a range of financial, accounting and management services to offshore companies.

Canadian Pacific Consulting Services Ltd., a wholly-owned subsidiary, provides international consulting in engineering, economics and management in the areas of transportation, communications, hotels, and resource development. Clients include major international development agencies and governments as well as private companies.

Environmental Expenditures

Capital expenditures of non-transportation businesses and their subsidiaries, required to comply with governmental regulations principally in Canada totalled $15 million in 1985 and are estimated at $22 million for 1986 and $42 million for 1987. Actual and estimated expenditures for such periods by principal subsidiaries are set forth in the following table:

	Actual 1985	Estimated 1986 (in millions)	Estimated 1987
Cominco	$ 3	$ 5	$13
CIP Inc.	5	5	5
Algoma	6	11	23
All Others	1	1	1
Total	$15	$22	$42

Item 2. Properties.

Information on properties has been included with the description of the various areas of operation of the Registrant's business in Item 1.

Item 3. Legal Proceedings.

Incorporated by reference to Note 22 of the Notes to Consolidated Financial Statements in the Registrant's Annual Report to shareholders (Page 54 of Exhibit 13A).

Item 4. Submission of Matters to a Vote of Security Holders.

A Special Meeting of Shareholders was held on December 5, 1985:

(a) to consider the issue of Ordinary Shares in connection with a proposed merger of Canadian Pacific Enterprises Limited (CPE) and the Registrant pursuant to an Amalgamation Agreement dated October 16, 1985 among CPE, the Registrant and CPS Limited;

(b) to consider a special resolution to amend the articles of the Registrant to increase the maximum number of directors from 24 to 30; and

(c) subject to the passing of the said special resolution, to elect five additional directors of the Registrant effective upon implementation of the merger.

The results of the poll were:

(a) on the motion for the approval of the issue of Ordinary Shares, 161,075,986 votes were cast for the resolution and 833,917 votes against;

(b) on the special resolution to amend the articles of the Registrant, 157,034,530 votes were cast for the resolution and 3,265,487 votes against.

The directors who were elected at the meeting were Messrs. T.M. Galt, C.M. Leitch, Q.C., A.A. MacNaughton, J.L. Nichol, O.C. and R.D. Southern. Their election was effective on December 6, 1985. All directors in office immediately prior to the meeting continued in office.

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

(a) Market Information
Information as to the Registrant's principal markets for its Ordinary Shares and the high and low sales prices is incorporated by reference to Ordinary Share Market Prices in the Registrant's Annual Report to shareholders (Page 71 of Exhibit 13A).

(b) Holders
The number of registered holders of the Registrant's Ordinary Shares as at March 10, 1986 was 83,853.

(c) Dividends
The Registrant declared dividends quarterly in 1984 and 1985 amounting to 46.67¢ per share in 1984 and 47.67¢ per share in 1985 on the Ordinary Shares. These amounts have been adjusted to reflect the three-for-one share split on May 17, 1985. The declaration of dividends is at the discretion of the Board of Directors after consideration of earnings, financial requirements and other considerations prevailing at the time.

Under the terms of the Canadian Income Tax Act and the United States-Canada tax convention, taxable dividends paid to United States resident shareholders of the Registrant (other than tax exempt organizations) are subject to a Canadian withholding tax of 15%.

Generally, capital gains on the disposition by United States residents of securities issued by the Registrant are exempt from Canadian tax unless the securities were either held in the conduct of a Canadian business or held by a former long term resident of Canada.

Item 6. Selected Financial Data.

Incorporated by reference to Ten-Year Summary in the Registrant's Annual Report to shareholders (Pages 68 and 69 of Exhibit 13A).

All dollar amounts recorded herein are expressed in Canadian dollars. The exchange rates between the Canadian dollar and the U.S. dollar are included in Part I (Page 2).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Incorporated by reference to Review of Operations and Financial Review in the Registrant's Annual Report to shareholders (Pages 8 to 29 inclusive of Exhibit 13A). All amounts and data included in the attached reference material are based on generally accepted accounting principles (GAAP) in Canada.

The Registrant's net income under United States GAAP is incorporated by reference to the Registrant's Annual Report to shareholders (page 56 of Exhibit 13A).

Management's views on the effects of inflation and changes in prices are incorporated by reference to the Registrant's Annual Report to shareholders (pages 64 to 67 inclusive of Exhibit 13A).

Item 8. Financial Statements and Supplementary Data.

The following financial statements of the Registrant and its consolidated subsidiaries are incorporated by reference to the Registrant's Annual Report to shareholders (Pages 30 to 67 inclusive of Exhibit 13A):

Consolidated Balance Sheet
December 31, 1985 and 1984
Statement of Consolidated Income
Years ended December 31, 1985, 1984 and 1983
Statement of Consolidated Retained Income
Years ended December 31, 1985, 1984 and 1983
Statement of Changes in Consolidated Financial Position
Years ended December 31, 1985, 1984 and 1983
Notes to Consolidated Financial Statements
Supplementary Data

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

Item 10. Directors and Executive Officers of the Registrant.

(a) Identification of Directors, Family Relationships and Business Experience.

Incorporated by reference to the Registrant's Proxy Statement (Pages 3 to 7 inclusive of Exhibit 13B).

(b) Identification of Executive Officers, Family Relationships and Business Experience.

Pages 40 to 44 inclusive.

(c) Identification of Certain Significant Employees.

There are no persons, who are not executive officers, to be reported under this caption.

(f) Involvement in Certain Legal Proceedings.

There have been no events which have occurred during the past five years which are material to an evaluation of the ability or integrity of any director, person nominated to become a director or executive officer of the Registrant.

Item 10. (b) (Continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	All positions and offices with Registrant	Term of office as officer and period during which has served as such	Business experience during past five years
F.S. Burbidge	67	Chairman of the Registrant; Director; and Member, Executive Committee	Elected annually after each annual meeting	Was successively President of the Registrant; Chairman of the Registrant and Chief Executive Officer prior to election as Chairman May 1, 1985
R.W. Campbell	63	Vice-Chairman of the Registrant; Director; and Member, Executive Committee	No term applicable	Was successively Chairman of the Board of PanCanadian Petroleum Limited; Vice-Chairman Canadian Pacific Enterprises Limited and Chairman and Chief Executive Officer Canadian Pacific Enterprises Limited prior to appointment as Vice-Chairman December 9, 1985
W.W. Stinson	52	President of the Registrant and Chief Executive Officer; Director; and Member, Executive Committee	Elected annually after each annual meeting	Was successively Executive Vice-President, CP Rail, and President of the Registrant prior to appointment as President and Chief Executive Officer May 1, 1985
R.S. Allison	61	President CP Rail	No term applicable	Was successively Vice-President, Eastern Region, and Executive Vice-President, CP Rail prior to appointment as President CP Rail June 11, 1984
J.C. Anderson	64	Vice-President Personnel	No term applicable	Was Vice-President Industrial Relations prior to appointment as Vice-President Personnel May 6, 1981

Item 10. (b) (Continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	All positions and offices with Registrant	Term of office as officer and period during which has served as such	Business experience during past five years
K.S. Benson	48	Vice-President Administration	No term applicable	Was successively Corporate Secretary Cominco Ltd.; Vice-President, Corporate Secretary, Cominco Ltd., and Vice-President Administration and Secretary Canadian Pacific Enterprises Limited prior to appointment as Vice-President Administration December 9, 1985
J.D. Bromley	63	Senior Regional Vice-President, Pacific, CP Rail	No term applicable	Was Vice-President, Pacific Region prior to appointment as Senior Regional Vice-President, Pacific, CP Rail June 11, 1984
J.P.T. Clough	51	Vice-President Finance and Accounting	No term applicable	Appointed Vice-President Finance and Accounting May 2, 1979
D.C. Coleman	50	Vice-President, Eastern Region	No term applicable	Was Assistant Vice-President Marketing and Sales prior to appointment as Vice-President, Eastern Region May 6, 1981
R. Colosimo	56	Vice-President Industrial Relations, CP Rail	No term applicable	Was Assistant Vice-President Industrial Relations prior to appointment as Vice-President Industrial Relations, CP Rail May 6, 1981
S.E. Eagles	56	Vice-President Corporate	No term applicable	Was successively Chairman and President Marathon Realty Company Limited and President Canadian Pacific Enterprises Limited prior to appointment as Vice-President Corporate December 9, 1985

Item 10. (b) (Continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	All positions and offices with Registrant	Term of office as officer and period during which has served as such	Business experience during past five years
J. Fox	62	Vice-President Engineering, Special Projects, CP Rail	No term applicable	Was Chief Engineer prior to appointment as Vice-President Engineering, Special Projects, CP Rail May 10, 1982
R.K. Gamey	40	Group Vice-President	No term applicable	Was successively Managing Director, Ship Management Services Division, Canadian Pacific Steamships Limited; Vice-President Canadian Pacific (Bermuda) Limited and Managing Director, Ship Management Services Division, Canadian Pacific Steamships Limited and President and Chief Executive Officer, Canadian Pacific Bulkship Services Limited prior to appointment as Group Vice-President, Canadian Pacific Limited December 9, 1985
J.H. Geddis	64	Vice-President Transportation Development, CP Rail	No term applicable	Was Chief of Transportation prior to appointment as Vice-President Transportation Development, CP Rail August 8, 1983
J.F. Hankinson	42	Group Vice-President	No term applicable	Was successively Comptroller Canadian Pacific Limited and Vice-President Finance and Accounting, Canadian Pacific Enterprises Limited prior to appointment as Group Vice-President December 9, 1985

Item 10. (b) (Continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	All positions and offices with Registrant	Term of office as officer and period during which has served as such	Business experience during past five years
J.P. Kelsall	50	Vice-President Operation and Maintenance	No term applicable	Was General Manager, Operation and Maintenance, Eastern Region prior to appointment as Vice-President Operation and Maintenance October 1, 1982
R. Klein	53	Vice-President Administration CP Rail	No term applicable	Was successively General Manager, Research and Assistant Vice-President Planning and Research prior to appointment as Vice-President Administration CP Rail October 28, 1985
A.S. Lanyi	49	Vice-President and Comptroller CP Rail	No term applicable	Was successively Assistant Comptroller, Development and Comptroller CP Rail prior to appointment as Vice-President and Comptroller CP Rail, October 28, 1985
C.R.O. Munro, O.C.	60	Vice-President Law and General Counsel	No term applicable	Was Assistant Vice-President Law prior to appointment as Vice-President Law and General Counsel May 27, 1985
C.R. Pike	59	Vice-President, Prairie Region	No term applicable	Was Vice-President Operation and Maintenance prior to appointment as Vice-President, Prairie Region October 1,1982
R.A. Rice	55	Vice-President Public Affairs CP Rail	No term applicable	Was successively Assistant General Manager (Public Relations); General Manager Public Relations and Advertising prior to appointment as Vice-President Public Affairs CP Rail October 28, 1985

Item 10. (b) (Continued)

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	All positions and offices with Registrant	Term of office as officer and period during which has served as such	Business experience during past five years
R.J. Ritchie	41	Vice-President Marketing and Sales, CP Rail	No term applicable	Was successively General Manager, Marketing and Sales, CP Rail, Pacific Region, and Assistant Vice-President Marketing and Sales prior to appointment as Vice-President Marketing and Sales, CP Rail June 11, 1984
I.B. Scott	56	Chairman and Chief Executive Officer, CP Rail	No term applicable	Was successively General Manager, Public Relations and Advertising, and Vice-President Administration and Public Affairs prior to appointment as Chairman and Chief Executive Officer, CP Rail on September 9, 1985
G.F. Sekely	54	Vice-President Computers and Communications	No term applicable	Was Director of Information Systems prior to appointment as Vice-President Computers and Communications August 8, 1983
F. Wallace	52	Vice-President Purchases and Materials	No term applicable	Was Director, Cost Analysis, Research Department, prior to appointment as Vice-President Purchases and Materials April 9, 1984
D.J. Deegan	46	Secretary	No term applicable	Was Assistant Secretary prior to appointment as Secretary December 1, 1984
D.E. Sloan	63	Treasurer	No term applicable	Appointed Treasurer January 15, 1969
J. Thomson	48	Comptroller	No term applicable	Was Director of Taxation and Assistant Comptroller prior to appointment as Comptroller December 1, 1983

There were no family relationships between directors, executive officers or persons nominated or chosen to become directors or executive officers.

Item 11. Executive Compensation.

Cash Compensation, Bonuses and Deferred Compensation and Compensation Pursuant to Benefit Plans are incorporated by reference to the Registrant's Proxy Statement (Pages 8 to 12 inclusive of Exhibit 13B).

Stock Option and Stock Appreciation Right Plans

There were no stock appreciation rights or options to purchase securities from the Registrant or any of its subsidiaries granted to or exercised or realized by any director or executive officer of the Registrant during the last fiscal year.

Termination of Employment and Change of Control Arrangement

None.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Security Ownership of Certain Beneficial Owners and Security Ownership of Management are incorporated by reference to the Registrant's Proxy Statement (Page 2 of Exhibit 13B).

There are no known contractual arrangements which may result in a change in control of the Registrant at a subsequent date.

Item 13. Certain Relationships and Related Transactions.

Transactions with Management and Others, Certain Business Relationships and Indebtedness of Management are incorporated by reference to the Registrant's Proxy Statement (Page 12 of Exhibit 13B).

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Document List

The financial statements, together with the Supplementary Data and the report of Price Waterhouse dated March 7, 1986, appearing on pages 30 to 67 of the accompanying 1985 Annual Report to shareholders are incorporated by reference in this Form 10-K Annual Report. With the exception of the aforementioned information and information expressly incorporated in Items 5, 6 and 7, the 1985 Annual Report to shareholders is not to be deemed filed as part of this report. The following financial statement schedules should be read in conjunction with the financial statements in such 1985 Annual Report to shareholders.

1. Financial statement schedules

	Page Numbers
Report of Independent Accountants on financial statement schedules	54
Financial statement schedules for the years 1985, 1984 and 1983:	
Schedule V - Property, Plant and Equipment	58 to 60
Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment	61 to 63
Schedule IX - Short Term Borrowings	64
Schedule X - Supplementary Income Statement Information	65

Financial statement schedules not included in this Form 10-K Annual Report have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto contained in the Registrant's Annual Report to shareholders (Exhibit 13A).

2. Exhibits

(3) Articles of Incorporation and By-Laws.

The Registrant has filed the following documents pursuant to the Exchange Act.

Copy of Charter of the Registrant with amending statutes (Form 10) filed with transmittal letter dated May 15, 1935. Copy of Act of Parliament of Canada under which the Registrant was incorporated and of each Act amending and supplementing said Act was filed on June 20, 1967 as an exhibit to Registration Statement No. 2-26768. Copy of Act respecting Canadian Pacific Limited (formerly Canadian Pacific Railway Company) being Statutes of Canada 14-15 Elizabeth II, Chaps. 109 and 110 and Statutes of Canada 17-18 Elizabeth II, Chap. 62 was filed June 2, 1971 as amendment No. 2 to Registrant's 1970 Form 10-K Annual Report.

Certificate of Continuance and Articles of Continuance, continuing the Registrant under the Canada Business Corporations Act, was filed on May 11, 1984 as an exhibit to the March 31, 1984 Form 10-Q.

By-law No. 1 which repeals all previous by-laws of the Registrant other than by-laws 47 and 49, was filed on May 11, 1984 as an exhibit to the March 31, 1984 Form 10-Q.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K. (continued)

Exhibits (continued)

(3) Articles of Incorporation and By-Laws. (continued)

Supplementary Letters Patent-issued on May 16, 1984, under section 11.3 of the Railway Act with respect to the acquisition by the Registrant in partnership with Canadian National Railway Company of certain Canadian assets of Consolidated Rail Corporation.

Articles of Amendment were issued under the Canada Business Corporations Act on May 1, 1985 increasing the number of Ordinary Shares that may be issued and amending the rights attaching to the Ordinary and Preference Shares effective on the three-for-one split of Ordinary and Preference Shares (Exhibit 3).

(4) Instruments defining the rights of security holders, including debentures.

Specimen copies of securities registered pursuant to the Exchange Act:

Perpetual 4% Consolidated Debenture Stock (Form 10) filed with transmittal letter dated May 15, 1935.

Ordinary Stock (Form 10) filed with transmittal letter dated May 15, 1935. Under Certificate of Continuance filed on May 11, 1984, each $5 share of Ordinary Stock constitutes 1 Ordinary Share.

No further instruments with respect to long term debt of the Registrant and its consolidated subsidiaries are filed hereunder since the securities authorized under any such instruments do not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis and the Registrant hereby agrees to furnish a copy of any such instruments to the Securities and Exchange Commission on request.

(10) Copy of pension agreement for Mr. R.W. Campbell, director of the Registrant, filed March 30, 1983 as Exhibit 10 to the 1982 Form 10-K Annual Report.

(11) Statement re Computation of Per Share Earnings (Exhibit 11).

(13) 1985 Annual Report to shareholders (Exhibit 13A) and Proxy Statement (Exhibit 13B).

(22) Subsidiaries of the Registrant (Exhibit 22).

(23) Matters submitted to vote of security holders (Exhibit 23).

(24) Consent of Independent Accountants (Exhibit 24).

(28) Additional Exhibits: Accounting for Investment Tax Credits (Exhibit 28A).
Quarterly Net Income (Exhibit 28B).

(b) Reports on Form 8-K.

A report on Form 8-K was filed on December 12, 1985 regarding the merger of Canadian Pacific Limited and Canadian Pacific Enterprises effective December 6, 1985.

Chartered Accountants

1100 Dorchester Blvd. West
Montréal (Québec) H3B 2G4

(514) 879 5600
Telex 05 268714
Telecopier (514) 879 5709

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULES

To the Directors of
Canadian Pacific Limited:

Our examinations of the consolidated financial statements referred to in our report dated March 7, 1986 appearing on page 34 of the 1985 Annual Report to Shareholders of Canadian Pacific Limited, (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an examination of the Financial Statement Schedules listed in Item 14(a)(1) of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE

MONTRÉAL, Québec
March 7, 1986

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Canadian Pacific Limited

(Registrant)

by (Sgd.) J.P.T. CLOUGH

J.P.T. Clough
Vice-President
Finance and Accounting
March 24, 1986

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

(Sgd.) F.S. BURBIDGE F.S. Burbidge	Chairman and Director	March 24, 1986
(Sgd.) W.W. STINSON W.W. Stinson	President and Chief Executive Officer and Director	March 24, 1986
(Sgd.) J.P.T. CLOUGH J.P.T. Clough	Vice-President Finance and Accounting (Principal Financial and Accounting Officer)	March 24, 1986
(Sgd) W. EARLE MCLAUGHLIN W. Earle McLaughlin	Director	March 24, 1986

SIGNATURES (Continued)

(Sgd.) C.A. FIELDING C.A. Fielding	Director	March 24, 1986
(Sgd.) STANLEY A. MILNER Stanley A. Milner	Director	March 24, 1986
(Sgd.) PAUL L. PARE Paul L. Paré	Director	March 24, 1986
(Sgd.) ROBERT W. CAMPBELL Robert W. Campbell	Director	March 24, 1986
(Sgd.) DONALD D. MATTHEWS Donald D. Matthews	Director	March 24, 1986
(Sgd.) JEAN CASSELMAN WADDS Jean Casselman Wadds	Director	March 24, 1986
(Sgd.) PETER LOUGHEED Peter Lougheed	Director	March 24, 1986

(Sgd.) CLAUDE PRATTE Claude Pratte	Director	March 24, 1986
(Sgd.) LUCIEN G. ROLLAND Lucien G. Rolland	Director	March 24, 1986
(Sgd.) JOHN H. MOORE John H. Moore	Director	March 24, 1986
(Sgd.) RAY D. WOLFE Ray D. Wolfe	Director	March 24, 1986
(Sgd.) ANGUS A. MACNAUGHTON Angus A. MacNaughton	Director	March 24, 1986
(Sgd.) R.D. SOUTHERN R.D. Southern	Director	March 24, 1986
(Sgd.) A.S. KINGSMILL A.S. Kingsmill	Director	March 24, 1986

CANADIAN PACIFIC LIMITED - CONSOLIDATED
SCHEDULE V - PROPERTIES
(in thousands)

Description	Balance January 1, 1985	Additions at cost	Retirements	Other Changes Add/(Deduct)	Balance December 31, 1985
Rail Transportation	$ 5,383,466	$ 609,266	$ 89,099	$ 759,841(a)	$ 6,663,474
Non-Rail Transportation	2,636,965	230,365	129,665	175,214(b)	2,912,879
Oil and Gas	2,546,105	430,993	2,539	270,046(c)	3,244,605
Mines and Minerals	2,601,691	170,208	16,802	(75,989)	2,679,108
Forest Products	2,479,939	120,843	7,939	(32,331)	2,560,512
Steel and Industrial Products	2,127,529	202,268	32,965	(57,715)	2,239,117
Real Estate	1,301,148	76,727	44,178	336,414(c)(d)	1,670,111
Other Businesses	696,091	54,462	54,083	(52,668)	643,802
Financial and Miscellaneous	38,371	1,202	698	(418)	38,457
	$19,811,305	$ 1,896,334	$ 377,968	$ 1,322,394	$22,652,065

(a) Includes $707,633,000 for Chicago, Milwaukee, St. Paul and Pacific Railroad Company consolidated effective February 19, 1985.

(b) Includes $101,284,000 for acquisition of Nordair Inc.

(c) Includes excess of the acquisition cost over the book value of the Enterprises shares acquired: Oil and Gas $269,900,000 and Real Estate $131,117,000.

(d) Includes $176,225,000 for purchase of Herring partnership.

(e) The Registrant's depreciation policy is noted in the Summary of Significant Accounting Policies included in the Registrant's Annual Report to Shareholders (pages 30 to 33 inclusive of Exhibit 13A).

CANADIAN PACIFIC LIMITED - CONSOLIDATED
SCHEDULE V - PROPERTIES
(in thousands)

Description	Balance January 1, 1984	Additions at cost	Retirements	Other Changes Add/(Deduct)	Balance December 31, 1984
Rail Transportation	$ 4,778,362	$ 467,880	$ 74,165	$ 211,389(a)	$ 5,383,466
Non-Rail Transportation	2,395,831	131,532	79,583	189,185(a)(b)	2,636,965
Oil and Gas	2,265,730	283,878	7,872	4,369	2,546,105
Mines and Minerals	2,457,692	155,531	16,207	4,675	2,601,691
Forest Products	2,276,038	91,736	8,731	120,896(c)	2,479,939
Steel and Industrial Products	2,087,303	60,909	47,703	27,020	2,127,529
Real Estate	1,234,237	105,889	69,812	30,834	1,301,148
Other Businesses	650,134	44,455	11,630	13,132	696,091
Financial and Miscellaneous	36,622	1,287	1,107	1,569	38,371
	$18,181,949	$ 1,343,097	$ 316,810	$ 603,069	$19,811,305

(a) Consists mainly of the exchange adjustment resulting from translation of properties of foreign subsidiaries at current rates in accordance with the new Canadian policy on foreign currency translation adopted by the Registrant in 1984.

(b) Includes $65,853,000 for Eastern Provincial Airways Limited consolidated effective September 1, 1984.

(c) Includes $122,138,000 for Tahsis consolidated December, 1984 following purchase of 50% interest not already owned.

CANADIAN PACIFIC LIMITED - CONSOLIDATED
SCHEDULE V - PROPERTIES
(in thousands)

Description	Balance January 1, 1983	Additions at cost	Retirements	Other Changes Add/(Deduct)	Balance December 31, 1983
Rail Transportation	$ 4,255,077	$ 391,049	$ 74,132	$ 206,368(a)	$ 4,778,362
Non-Rail Transportation	2,075,932	118,521	52,596	253,974(b)	2,395,831
Oil and Gas	2,045,766	222,495	2,314	(217)	2,265,730
Mines and Minerals	2,367,459	126,646	13,682	(22,731)	2,457,692
Forest Products	2,174,290	95,873	10,562	16,437	2,276,038
Steel and Industrial Products	2,066,823	62,564	42,712	628	2,087,303
Real Estate	1,191,711	93,377	50,652	(199)	1,234,237
Other Businesses	837,834	61,433	16,503	(232,630)(b)	650,134
Financial and Miscellaneous	30,450	1,188	1,241	6,225	36,622
	$17,045,342	$ 1,173,146	$ 264,394	$ 227,855	$18,181,949

(a) Includes restatement of properties to reflect change from betterment accounting to depreciation accounting for track structures.

(b) Includes properties of CP Hotels sold by CP Enterprises to CP Air.

CANADIAN PACIFIC LIMITED - CONSOLIDATED

SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION

(in thousands)

Description	Balance January 1, 1985	Additions: Charged to Income	Additions: Other	Deductions: Retirements	Deductions: Other	Balance December 31, 1985
Rail Transportation						
- Depreciation	$2,138,053	$ 187,671	$ 25,191	$ 77,074	$ 1,046	$2,272,795
Non-Rail Transportation						
- Depreciation	847,806	148,879	22,052	93,318	-	925,419
Oil and Gas						
- Depreciation	269,306	61,786	-	1,218	1,201	328,673
- Depletion	486,006	95,997	38	-	-	582,041
Mines and Minerals						
- Depreciation	797,746	111,074	1,300	7,229	13,597	889,294
- Depletion	124,952	20,252	9,359	124	23,907	130,532
- Amortization	19,933	1,946	-	-	-	21,879
Forest Products						
- Depreciation	624,762	133,014	1	6,102	1,860	749,815
- Depletion	19,478	1,414	-	-	-	20,892
Steel and Industrial Products						
- Depreciation	804,165	88,062	9,756	18,212	26,122	857,649
- Amortization	22,277	4,346	828	2,094	-	25,357
Real Estate						
- Depreciation	82,873	18,031	432	5,191	199	95,946
Other Businesses						
- Depreciation	315,309	40,766	1,487	29,218	26,741	301,603
Financial and Miscellaneous						
- Depreciation	11,483	1,854	665	1,064	510	12,428
	$6,564,149	$ 915,092	$ 71,109	$ 240,844	$ 95,183	$7,214,323

CANADIAN PACIFIC LIMITED - CONSOLIDATED

SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION

(in thousands)

Description	Balance January 1, 1984	Additions: Charged to Income	Additions: Other	Deductions: Retirements	Deductions: Other	Balance December 31, 1984
Rail Transportation						
- Depreciation	$1,927,934	$ 147,102	$ 120,225(a)	$ 57,208	$ -	$2,138,053
Non-Rail Transportation						
- Depreciation	715,698	132,757	44,613(a)	43,635	1,627	847,806
Oil and Gas						
- Depreciation	213,204	59,119	-	1,775	1,242	269,306
- Depletion	408,719	77,287	-	-	-	486,006
- Amortization	307	-	-	307	-	-
Mines and Minerals						
- Depreciation	695,862	104,896	9,536	4,422	8,126	797,746
- Depletion	114,795	20,324	3,158	302	13,023	124,952
- Amortization	18,562	1,371	-	-	-	19,933
Forest Products						
- Depreciation	508,353	119,100	3,945	6,636	-	624,762
- Depletion	21,734	1,689	-	-	3,945	19,478
Steel and Industrial Products						
- Depreciation	753,046	84,638	1,122	34,641	-	804,165
- Amortization	19,058	4,322	725	1,828	-	22,277
Real Estate						
- Depreciation	69,881	15,247	723	2,779	199	82,873
Other Businesses						
- Depreciation	274,834	43,704	5,950	9,179	-	315,309
Financial and Miscellaneous						
- Depreciation	10,373	1,623	1,613	1,180	946	11,483
	$5,752,360	$ 813,179	$ 191,610	$ 163,892	$ 29,108	$6,564,149

(a) Consists mainly of the exchange adjustment resulting from translation of accumulated depreciation of foreign subsidiaries at current rates in accordance with the new Canadian policy on foreign currency translation adopted by the Registrant in 1984.

CANADIAN PACIFIC LIMITED - CONSOLIDATED

SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION

(in thousands)

Description	Balance January 1, 1983	Additions: Charged to Income	Additions: Other	Deductions: Retirements	Deductions: Other	Balance December 31, 1983
Rail Transportation						
- Depreciation	$1,709,187	$ 134,686	$ 148,887(a)	$ 64,826	$ -	$1,927,934
Non-Rail Transportation						
- Depreciation	575,652	109,756	83,864(b)	31,905	21,669	715,698
Oil and Gas						
- Depreciation	161,909	53,500	-	1,662	543	213,204
- Depletion	348,833	59,886	-	-	-	408,719
- Amortization	611	-	-	304	-	307
Mines and Minerals						
- Depreciation	615,827	90,657	1,965	10,530	2,057	695,862
- Depletion	107,588	20,010	4,240	-	17,043	114,795
- Amortization	17,418	1,144	-	-	-	18,562
Forest Products						
- Depreciation	393,545	107,248	19,916	8,290	4,066	508,353
- Depletion	19,740	1,992	2	-	-	21,734
Steel and Industrial Products						
- Depreciation	688,098	81,794	13	16,859	-	753,046
- Amortization	18,081	3,432	190	2,629	16	19,058
Real Estate						
- Depreciation	58,883	13,798	-	2,601	199	69,881
Other Businesses						
- Depreciation	323,511	51,127	96	12,939	86,961(b)	274,834
Financial and Miscellaneous						
- Depreciation	5,672	1,569	4,320	1,187	1	10,373
	$5,044,555	$ 730,599	$ 263,493	$ 153,732	$ 132,555	$5,752,360

(a) Includes restatement of accumulated depreciation to reflect change from betterment accounting to depreciation accounting for track structures.

(b) Includes accumulated depreciation on properties of CP Hotels sold by CP Enterprises to CP Air.

CANADIAN PACIFIC LIMITED - CONSOLIDATED

SCHEDULE IX - SHORT TERM BORROWINGS
(in thousands)

	Balance, December 31	Weighted Average Interest Rate	Maximum Amount Outstanding at any month end	Average Amount Outstanding During Year(a)	Weighted Average Interest Rate During Year (b)
1985					
Bank loans	$386,452	9.17%	$516,326	$387,840	10.07%
Notes payable	585,397	9.22%	818,294	652,236	9.59%
1984					
Bank loans	$414,750	10.62%	$583,468	$444,105	11.44%
Notes payable	391,279	10.85%	407,513	305,956	11.03%
1983					
Bank loans	$307,646	10.63%	$457,647	$373,994	10.99%
Notes payable	325,926	9.52%	451,347	391,774	9.40%

Note

(a) Average amount outstanding during the year is weighted by month.

(b) Average interest rate for the year is computed by dividing actual short term interest expense by the average short term debt outstanding.

CANADIAN PACIFIC LIMITED - CONSOLIDATED

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
FOR THE YEAR ENDED DECEMBER 31
(in thousands)

	1985	1984	1983
1. Maintenance and repairs	$1,923,755	$1,769,005	$1,625,785
2. Depreciation and amortization of intangible assets, pre-operating costs and similar deferrals	(a)	(a)	(a)
3. Taxes, other than payroll and income taxes			
Property	$ 182,077	$ 174,838	$ 172,600
Other	172,101	141,558	125,242
Total	$ 354,178	$ 316,396	$ 297,842
4. Royalties	(a)	(a)	(a)
5. Advertising costs	(a)	(a)	(a)

Note

(a) These amounts do not exceed one percent of total revenues.

Exhibit 3

CANADA

Certificate of Amendment

Canada Business Corporations Act

Certificat de modification

Loi sur les sociétés commerciales canadiennes

CANADIAN PACIFIC LIMITED
CANADIEN PACIFIQUE LIMITEE

Name of Corporation — Dénomination de la société

34916-0

Number — Numéro

I hereby certify that the Articles of the above-mentioned Corporation were amended

Je certifie par les présentes que les statuts de la société mentionnée ci-haut ont été modifiés

(a) under section 13 of the Canada Business Corporations Act in accordance with the attached notice; ☐ (a) en vertu de l'article 13 de la Loi sur les sociétés commerciales canadiennes conformément à l'avis ci-joint;

(b) under Section 27 of the Canada Business Corporations Act as set out in the attached Articles of Amendment designating a series of shares; ☐ (b) en vertu de l'article 27 de la Loi sur les sociétés commerciales canadiennes tel qu'indiqué dans les clauses modificatrices ci-jointes désignant une série d'actions;

(c) under Section 171 of the Canada Business Corporations Act as set out in the attached Articles of Amendment; ☒ (c) en vertu de l'article 171 de la Loi sur les sociétés commerciales canadiennes tel qu'indiqué dans les clauses modificatrices ci-jointes;

(d) under Section 185 of the Canada Business Corporations Act as set out in the attached Articles of Reorganization; ☐ (d) en vertu de l'article 185 de la Loi sur les sociétés commerciales canadiennes tel qu'indiqué dans les clauses de réorganisation ci-jointes;

(e) under Section 185.1 of the Canada Business Corporations Act as set out in the attached Articles of Arrangement. ☐ (e) en vertu de l'article 185.1 de la Loi sur les sociétés commerciales canadiennes tel qu'indiqué dans les clauses d'arrangement ci-jointes.

Frederick H. Sparling

Director — Directeur

May 1, 1985
le 1 mai 1985

Date of Amendment — Date de la modification

Exhibit 3

CANADA BUSINESS
CORPORATIONS ACT

FORM 4

ARTICLES OF AMENDMENT
(SECTION 27 OR 171)

LOI SUR LES SOCIÉTÉS
COMMERCIALES CANADIENNES

FORMULE 4

CLAUSES MODIFICATRICES
(ARTICLE 27 OU 171)

1 - Name of Corporation – Dénomination de la société

Canadian Pacific Limited
Canadien Pacifique Limitée

2 - Corporation No – Nº de la société

34916-0

3 - The articles of the above-named corporation are amended as follows:

Les statuts de la société ci-haut mentionnée sont modifiés de la façon suivante

The annexed Schedule I is incorporated in this form.

May 1, 1985 F.S. Burbidge Chairman and Chief Executive Officer

SCHEDULE I to the Articles of
Amendment of Canadian Pacific
Limited - Canadien Pacifique Limitée

1. paragraph 1) under the heading "SHARES" in Schedule "A" to the Articles of Continuance is amended to read:

   1) an unlimited number of Ordinary Shares without nominal or par value,

2. paragraph 2) under the heading "SHARES" in the said Schedule "A" is amended to read:

   2) a number of Preference Shares without nominal or par value such that the amount of preference stock outstanding may equal but shall not exceed at any time 1/2 the aggregate amount of the ordinary stock then outstanding and that the authorized capital of the Corporation shall be decreased by preference stock of the Corporation surrendered in consideration of preferred shares of the Corporation and cancelled prior to its continuance under the Canada Business Corporations Act, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be the equivalent of $1 and £0.33 1/3 respectively of preference stock and each Ordinary Share being deemed to be the equivalent of $1.66 2/3 of ordinary stock, and

3. paragraph 2 c) of the said Schedule "A" is amended to read:

   c) As to dividends the Preference Shares shall take priority over Ordinary Shares up to, but not exceeding 4% per annum, being $0.04 per Canadian Dollar Preference Share per annum and £0.01 1/3 per Sterling Preference Share per annum, and shall not receive at any time a dividend at a higher rate than 4% per annum or in excess of these amounts. Dividends on the Preference Shares shall not be cumulative and if for any period or periods the dividends on such Preference Shares be less than 4% per annum, being $0.04 per Canadian Dollar Preference Share per annum or £0.01 1/3 per Sterling Preference Share per annum, the deficiency or any part of it shall not be made good afterwards. A holder of a fraction of a Preference Share is entitled to receive a dividend in respect of that fraction.

4. paragraph 2 e) of the said Schedule "A" is amended to read:

   e) The rights of the holders of the Preference Shares on dissolution shall be determined on the basis of the provisions applicable to the preference stock of the Corporation immediately preceding its continuance under the Canada Business Corporations Act and in accordance with the provisions applicable to the other classes of shares of the Corporation and for that purpose each Canadian Dollar Preference Share shall be deemed to be $1 of such preference stock and each Sterling Preference Share shall be deemed to be £0.33 1/3 of such preference stock and the provisions applicable to the Ordinary Shares and the Preferred Shares shall be deemed to be those applicable to the ordinary stock and the preferred shares respectively of the Corporation immediately preceding such continuance.

5. section 6 of Schedule "C" to the Articles of Continuance is amended to read:

   6. The Corporation may at any time and from time to time on such terms and conditions as the directors of the Corporation may from time to time prescribe issue any of the Preferred Shares of the Corporation in consideration of the surrender of any Preference Shares of the Corporation, provided that what would be the par value of any such Preferred Shares so issued if each of them were a preferred share having a par value of $10 shall not exceed what would be the par value of the Preference Shares so surrendered, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be $1 and £0.33 1/3 respectively of preference stock. Any Preference Shares so surrendered shall be cancelled and the authorized and issued capital of the Corporation shall be thereby decreased.

6. section 8 of the said Schedule "C" is amended to read:

   8. Except to the extent otherwise required by the Canada Business Corporations Act, Preference Shares and Preferred Shares shall be issued in accordance with the provisions applicable to the preference stock and preferred shares respectively of the Corporation immediately preceding its continuance under the Canada Business Corporations Act and

for such purpose each Canadian Dollar Preference Share shall be deemed to be $1 of such preference stock, each Sterling Preference Share shall be deemed to be £0.33 1/3 of such preference stock and each Preferred Share shall be deemed to be 1 such preferred share.

7. section 11 of the said Schedule "C" is amended to read:

11. (1) Upon issuance of a certificate of continuance continuing the Corporation under the Canada Business Corporations Act,

(a) each $5 share of ordinary stock shall constitute 1 Ordinary Share,
(b) each $3 of preference stock theretofore denominated in Canadian currency shall constitute 1 Canadian Dollar Preference Share and each £1 of preference stock theretofore denominated in Sterling money of Great Britain shall constitute 1 Sterling Preference Share, provided that fractional Preference Shares shall be issued for amounts of preference stock of less than $3 or £1, and
(c) each 7 1/4% Cumulative Redeemable Preferred Share, Series A shall constitute 1 Series A Preferred Share.

(2) For the purpose of determining the rights of the holders of the Preference Shares and of the Preferred Shares on dissolution in accordance with the rights, privileges, restrictions and conditions respectively attached thereto, each Ordinary Share and each Canadian Dollar Preference Share and Sterling Preference Share shall be deemed to be $1.66 2/3 of ordinary stock and $1 and £0.33 1/3 of preference stock respectively.

8. Paragraphs 2 to 7 inclusive of this Schedule I shall come into force at and shall have effect from the close of business of the registered office of the Corporation on May 17, 1985 at which time the number of issued Ordinary and Preference Shares shall be subdivided on a 3-for-1 basis.

CANADIAN PACIFIC LIMITED

Statement re Computation of Per Share Earnings

	1985	1984	1983
	(in thousands, except per share amounts)		
Net income	$246,720	$376,903	$143,592
Deduct: Dividends on preferred and preference shares	708	1,353	1,492
Adjusted net income	$246,012	$375,550	$142,100
Average number of Ordinary shares	220,781	214,987*	214,987*
Earnings per Ordinary Share	$ 1.11	$ 1.75	$ 0.66

* After adjusting for the three-for-one share split effective May 17, 1985.

CANADIAN PACIFIC LIMITED

Subsidiaries of the Registrant as at December 31, 1985

	Jurisdiction of Incorporation
RAIL TRANSPORTATION	
CP Rail	
In addition to the rail operation of CP Limited, there are 20 leased railway companies in Canada and the U.S.A.	
Soo Line Corporation	U.S.A.
Milwaukee Road Inc.	U.S.A.
Soo Line Railroad Company	U.S.A.
4 other companies in the U.S.A.	
NON-RAIL TRANSPORTATION	
CP Air	
Canadian Pacific Air Lines, Limited (CPAL)	Canada
Eastern Provincial Airways Limited	Newfoundland
Nordair Inc.	Canada
12 other companies in Canada and other countries Canadian Pacific Hotels is a division of CPAL	
CP Ships	
Canadian Pacific Steamships, Limited	United Kingdom
2 other companies in the United Kingdom	
Canadian Pacific (Bermuda) Limited	Bermuda
8 other companies and other countries	
Centennial Shipping Limited	Bermuda
Canada Maritime Limited	Bermuda
10 other companies in Canada, the United Kingdom and other countries	
Racine Terminal (Montreal) Limited	Canada
1 other company in Canada	
CP Trucks	
Canadian Pacific Express & Transport Ltd.	Canada
14 other companies in Canada and the U.S.A.	
CanPac International Freight Services Inc.	Canada
4 other companies in Canada and the U.S.A.	

Exhibit 22

CANADIAN PACIFIC LIMITED

Subsidiaries of the Registrant
as at December 31, 1985

	Jurisdiction of Incorporation
OIL AND GAS	
PanCanadian Petroleum Limited	Canada
10 other companies in Canada, the U.S.A. and other countries	
MINES AND MINERALS	
Cominco Ltd.	Canada
Cominco American Incorporated	Washington
Pine Point Mines Limited	Canada
Vestgron Mines Limited	Canada
Greenex A/S	Denmark
Western Canada Steel Limited	British Columbia
West Kootenay Power and Light Company, Limited	British Columbia
55 other companies in Canada, the U.S.A. and other countries	
Fording Coal Limited	Canada
1 other company in Canada	
Processed Minerals Incorporated	Delaware
2 other companies in the U.S.A.	
Steep Rock Resources Inc.	Ontario
3 other companies in Canada	
FOREST PRODUCTS	
CIP Inc.	Quebec
21 other companies in Canada, the U.S.A. and other countries	
Great Lakes Forest Products Limited	Ontario
5 other companies in Canada, the U.S.A. and other countries	
Commandant Properties, Limited	Canada
STEEL AND INDUSTRIAL PRODUCTS	
The Algoma Steel Corporation, Limited	Ontario
Cannelton Industries, Inc.	West Virginia
9 other companies in Canada and the U.S.A.	
AMCA International Limited	Canada
AMCA International Corporation	Delaware
67 other companies in Canada, the U.S.A. and other countries	

Exhibit 22

CANADIAN PACIFIC LIMITED

Subsidiaries of the Registrant as at December 31, 1985

	Jurisdiction of Incorporation
REAL ESTATE	
Marathon Realty Company Limited	Canada
10 other companies in Canada, the U.S.A. and other countries	
OTHER BUSINESSES	
Maple Leaf Mills Limited	Ontario
11 other companies in Canada and other countries	
Syracuse China Corporation	Delaware
3 other companies in Canada and the U.S.A.	
CP Telecommunications	
CNCP Telecommunications - a partnership operated with Canadian National Railway Company on a 50/50 basis	Canada
FINANCIAL AND MISCELLANEOUS	
Canadian Pacific Enterprises Limited	Canada
Canadian Pacific Securities Limited	Canada
Chateau Insurance Company	Canada
Canadian Pacific Enterprises (U.S.) Inc.	Delaware
Canadian Pacific Consulting Services Ltd.	Canada
3 other companies in Canada, Australia and Costa Rica	
CanPac Car Inc.	U.S.A.
Central Terminal Railway Company	U.S.A.
The Toronto, Hamilton and Buffalo Railway Company	Ontario
14 other companies in Canada, the U.S.A. and Bermuda, and 2 partnerships in Canada	

Canadian Pacific Limited

Exhibit 23

Report of the Proceedings of the Special Meeting of Shareholders held at Montreal on Thursday, December 5, 1985

The meeting assembled in accordance with the convening notice at 10:00 a.m., Montreal time, at Le Château Champlain, Montreal, Quebec.

In accordance with the by-laws of the Corporation, the Chairman of the Corporation, Mr. F. S. Burbidge, presided and the Secretary of the Corporation acted as secretary of the meeting.

The Chairman introduced members of the Board of Directors and the nominees for election as directors effective upon implementation of the merger of Canadian Pacific Enterprises Limited and the Corporation. He then introduced the representatives of the Corporation's auditors, as well as the representatives of the Corporation's financial advisors.

With the approval of the meeting, the Chairman named Mr. A. J. Gareau and Mr. W. J. Johnston, both employees of the Montreal Trust Company, to act as Scrutineers.

There were 141 shareholders and proxyholders present at the meeting. A total of 163,143,182 votes were represented consisting of 163,115,707 votes in respect of which proxies had been deposited with the Corporation in accordance with the proxy requirements set forth in the notice calling the meeting and 27,475 votes represented by shareholders who attended the meeting in person.

Notice of the meeting having been given as required and a quorum being present, the Chairman declared the meeting to be regularly called and properly constituted for the transaction of business.

Mr. J. Brian Aune moved and Mr. Lynn H. Goth seconded the following resolution concerning the confirmation of minutes of the Annual Meeting of Shareholders held on May 1, 1985:

RESOLVED, that reading of the minutes of the Annual Meeting of Shareholders, held on May 1, 1985, be dispensed with and that said minutes be taken as read and confirmed.

The question having been put to a vote, the Chairman declared the motion carried.

The Chairman then informed the shareholders as follows:

"As the shareholders are aware, the purpose of this meeting is to deal with certain matters relating to a proposed merger of Canadian Pacific Enterprises and Canadian Pacific Limited. The merger has been proposed to facilitate the integration of the businesses and operations and the unification of the managements of both corporations and to allow for more effective coordination and utilization of their financial resources and assets. The terms of the proposed merger are set out in full in the Joint Proxy Statement forwarded to the shareholders, copies of which were made available at the entrance to this meeting room. The ability of the corporations to pursue further growth prospects and future investment opportunities can be improved by the merger and it is expected that as a result of the merger the Ordinary Shares of Canadian Pacific Limited will reflect better the value of the assets and earnings of the combined corporations.

The Boards of Directors of Canadian Pacific Enterprises Limited and Canadian Pacific Limited consider it advantageous to both corporations and their respective shareholders that the merger proceed and have unanimously recommended that shareholders vote for its approval."

At the conclusion of the Chairman's remarks, Mr. Latham C. Burns moved and Mr. Frank B. Peterson seconded the following resolution:

RESOLVED, that the issue of Ordinary Shares in connection with the merger of Canadian Pacific Enterprises Limited (CPE) and the Corporation pursuant to the Amalgamation Agreement dated October 16, 1985 among CPE, the Corporation and CPS Limited be approved.

A vote on the foregoing resolution was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together.

With the consent of the meeting, the Chairman then proceeded to the next item of business.

Mr. Guy M. Drummond, Q.C. moved and Mr. John A. McDonald seconded the following special resolution:

RESOLVED, as a special resolution that:

1. The articles of the Corporation be amended to change the maximum number of directors of the Corporation from 24 to 30.

2. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

Exhibit 23

A vote was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together on the special resolution.

The Chairman instructed the Scrutineers to retire, tabulate the ballots and provide the Chair with Scrutineers' Reports on the two votes.

The Chairman recessed the meeting until receipt of the Scrutineers' Reports on the votes. At the conclusion of the recess, the Chairman called the meeting to order.

The Chairman read and adopted the Scrutineers' Report on the vote of the holders of the Ordinary and Preference Shares voting together on the motion for the approval of the issue of Ordinary Shares. He said that 161,075,986 votes had been cast for the resolution and that 833,917 votes had been cast against the resolution. He declared the motion carried by more than a majority of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the resolution. He then read the Scrutineers' Report on the vote of the holders of the Ordinary and Preference Shares voting together on the special resolution to amend the articles of the Corporation. He said that 157,034,530 votes had been cast for the resolution and that 3,265,487 votes had been cast against the resolution. He declared the motion carried by a majority of more than two-thirds of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the special resolution. The Chairman directed that the Scrutineers' Reports be annexed to the minutes of the meeting.

The Chairman stated that the final item of business to come before the meeting was the election of five additional directors of the Corporation effective upon implementation of the merger. Mr. James B. Pitblado moved and Mr. David M. McEntyre seconded the following resolution:

RESOLVED, that Thomas M. Galt, C. Merv Leitch, Q.C., Angus A. MacNaughton, The Hon. John L. Nichol, O.C., and R. D. Southern be elected directors of the Corporation effective upon implementation of the merger of Canadian Pacific Enterprises Limited and the Corporation, the terms of office of Messrs. Leitch and Nichol to end at the close of the first annual meeting of shareholders following their election, the terms of Messrs. Galt and MacNaughton to end at the close of the second such meeting and the term of Mr. Southern to end at the close of the third such meeting.

The question having been put to a vote, the Chairman declared the motion carried.

All business for which the Special Meeting was called having been accomplished, Mr. J. Michael G. Scott moved and Mr. Richard J. Riendeau, Q.C. seconded the following resolution:

RESOLVED, that this meeting do now terminate.

The resolution having been put to a vote, the Chairman declared the motion carried and the meeting terminated.

Chairman

Secretary

At a meeting of the shareholders of Canadian Pacific Enterprises Limited held in Calgary on Friday, December 6, 1985, the merger was approved by 99.4% of the shares voted including 97.6% of those held by shareholders other than Canadian Pacific Limited.

The merger became effective on December 6, 1985, shortly after the shareholders' approval.

Printed in Canada

Legal deposit – 4th quarter 1985.

Exhibit 24

Chartered Accountants

1100 Dorchester Blvd. West
Montréal (Québec) H3B 2G4

(514) 879 5600
Telex 05 268714
Telecopier (514) 879 5709

Price Waterhouse

CONSENT OF INDEPENDENT ACCOUNTANTS

To the Directors of
Canadian Pacific Limited:

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 No. 2-98342 and No. 2-98605 of Canadian Pacific Limited of our report dated March 7, 1986 appearing on page 34 of the 1985 Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules, which appears on page 54 of this Form 10-K.

PRICE WATERHOUSE

MONTRÉAL, Québec
March 7, 1986

Exhibit 28A

CANADIAN PACIFIC LIMITED

Additional Exhibits

Accounting for Investment Tax Credits

Effective January 1, 1985, Canadian Pacific Limited and its subsidiaries adopted on a prospective basis the new recommendations of the Canadian Institute of Chartered Accountants. Whereas previously investment tax credits were accounted for principally as a reduction of income tax expense, the new recommendations call for them to be amortized to income on the same basis as the assets to which they relate.

CANADIAN PACIFIC LIMITED Exhibit 28B

Additional Exhibits

Quarterly Net Income

	1985			
	For the three months ended			
	March 31	June 30	September 30	December 31
	(in thousands)			
RAIL TRANSPORTATION				
CP Rail	$ 13,348	$ 45,800	$ 18,832	$ 55,469
Soo Line Corporation	1,451	(3,950)	(3,004)	(3,190)
	14,799	41,850	15,828	52,279
NON-RAIL TRANSPORTATION				
CP Air	(10,021)	3,255	17,292	(19,436)
CP Ships	(82)	(3,073)	(5,404)	(10,571)
CP Trucks	(1,279)	734	1,321	2,006
	(11,382)	916	13,209	(28,001)
OIL AND GAS				
PanCanadian Petroleum Limited	53,704	41,623	35,856	57,396
MINES AND MINERALS				
Cominco Ltd.	(1,505)	3	(11,656)	(36,194)
Fording Coal Limited	2,788	1,843	509	2,230
Processed Minerals Incorporated	1,328	987	679	406
Steep Rock Resources Inc.	(5)	129	153	42
Others	215	253	132	362
	2,821	3,215	(10,183)	(33,154)
FOREST PRODUCTS				
CIP Inc.	(6,312)	(3,471)	(4,435)	(2,417)
Great Lakes Forest Products Limited	1,833	(628)	(508)	(877)
Others	(8)	(3)	-	10
	(4,487)	(4,102)	(4,943)	(3,284)
STEEL AND INDUSTRIAL PRODUCTS				
The Algoma Steel Corporation, Limited	(2,867)	(2,200)	(2,454)	(61)
AMCA International Limited	1,404	1,825	1,491	1,443
	(1,463)	(375)	(963)	1,382
REAL ESTATE				
Marathon Realty Company Limited	4,694	3,004	5,247	7,183
OTHER BUSINESSES				
Maple Leaf Mills Limited	1,285	(2,522)	3,539	4,810
CP Telecommunications	2,543	2,156	2,264	2,052
Syracuse China Corporation	532	1,248	922	1,734
Others	263	239	(295)	-
	4,623	1,121	6,430	8,596
FINANCIAL AND MISCELLANEOUS				
Canadian Pacific Securities Limited	326	249	296	248
Chateau Insurance Company	(801)	245	300	(31)
Corporate Activities	(5,573)	(3,685)	(7,287)	(12,320)
Others	254	365	110	585
	(5,794)	(2,826)	(6,581)	(11,518)
NET INCOME	$ 57,515	$ 84,426	$ 53,900	$ 50,879

CANADIAN PACIFIC LIMITED

Exhibit 28B

Additional Exhibits

Quarterly Net Income

	1984			
	For the three months ended			
	March 31	June 30	September 30	December 31
	(in thousands)			
RAIL TRANSPORTATION				
CP Rail	$ 28,959	$ 52,316	$ 65,477	$ 38,792
Soo Line Corporation	3,411	1,125	5,431	2,935
	32,370	53,441	70,908	41,727
NON-RAIL TRANSPORTATION				
CP Air	(14,811)	2,183	21,442	4,946
CP Ships	(7,326)	(5,582)	(5,284)	(5,414)
CP Trucks	(857)	513	1,810	1,604
	(22,994)	(2,886)	17,968	1,136
OIL AND GAS				
PanCanadian Petroleum Limited	47,025	43,392	40,260	52,118
MINES AND MINERALS				
Cominco Ltd.	449	6,632	255	(3,397)
Fording Coal Limited	987	1,602	1,783	2,058
Processed Minerals Incorporated	635	533	576	1,278
Steep Rock Resources Inc.	(67)	9	(1)	273
Others	237	218	222	346
	2,241	8,994	2,835	558
FOREST PRODUCTS				
CIP Inc.	(18,364)	(6,112)	(2,751)	13,407
Great Lakes Forest Products Limited	79	1,676	2,067	2,981
Others	45	23	31	20
	(18,240)	(4,413)	(653)	16,408
STEEL AND INDUSTRIAL PRODUCTS				
The Algoma Steel Corporation, Limited	(9,470)	(3,052)	(7,130)	(6,746)
AMCA International Limited	172	1,121	(1,471)	(741)
	(9,298)	(1,931)	(8,601)	(7,487)
REAL ESTATE				
Marathon Realty Company Limited	2,946	5,561	7,347	3,263
OTHER BUSINESSES				
Maple Leaf Mills Limited	2,020	1,601	2,779	4,443
Baker Commodities, Inc.	1,409	1,032	499	7,494
CP Telecommunications	1,772	2,101	2,367	1,834
Syracuse China Corporation	544	1,002	564	1,278
Others	128	(174)	108	232
	5,873	5,562	6,317	15,281
FINANCIAL AND MISCELLANEOUS				
Canadian Pacific Securities Limited	352	306	311	263
Chateau Insurance Company	(413)	36	262	(224)
Corporate Activities	(4,807)	(10,728)	(7,065)	1,400
Others	(1,695)	219	(134)	(8,208)
	(6,563)	(10,167)	(6,626)	(6,769)
NET INCOME	$ 33,360	$ 97,553	$129,755	$116,235

Report for the six months ended June 30, 1985

Canadian Pacific Limited

To the Shareholders:
Consolidated net income of $141.9 million for the first six months was up $11.0 million from the corresponding period of 1984. After adjustment for the three-for-one stock split effective May 17, 1985, earnings per Ordinary share amounted to $0.66, an increase of $0.05 over the first half of last year.

During the second quarter the Company's earnings were $84.4 million, or $0.39 per Ordinary share, a decrease of $13.1 million, or $0.07 per share, from the comparable quarter of 1984. Canadian Pacific Enterprises Limited and railway operations had disappointing results during the quarter, while there was a substantial reduction in the loss from Miscellaneous.

In accordance with the recommendation, effective January 1, 1985, of the Canadian Institute of Chartered Accountants, the Company changed its basis of accounting for investment tax credits. This resulted in a reduction of approximately $13 million in consolidated net income for the first six months, of which about $7 million pertained to CP Rail.

Transportation
Net income from CP Rail declined $22.1 million during the first six months, as marginally higher revenues were surpassed by increased expenses. A poor grain crop, resulting from severe drought conditions in the Prairie Provinces during the summer of 1984, has had a particularly harmful impact on railway traffic and revenues. Although labour expenses were curtailed, costs of materials and fuel continued to rise and interest charges increased.

CP Rail recently reached agreement with its non-operating railway unions on a new two-year labour contract effective January 1, 1985. The settlement provides for a general wage increase of 4% per year along with certain other benefits. Contracts covering three other major groups have yet to be settled.

The loss from CP Air, which comprises airline and hotel operations, was $5.9 million less than in the first half of 1984. Earnings from CP Hotels of $7.7 million were up $7.4 million, reflecting not only compensation received in the first quarter for the early termination of a hotel management contract but also better operating performance. The loss from airline operations was $1.5 million greater, due to the inclusion this year of a loss of $3.8 million from Eastern Provincial Airways which was acquired in August 1984. Improved results of the CP airline division stemmed from both increased passenger revenue and cost control. Negotiations on new three-year labour contracts were recently completed between CP Air and three unions representing most of the airline's non-management employees. It is expected that the new agreements, which include work rule changes, will have a favourable impact on operations.

The marked reduction in the loss from CP Ships for the first six months was achieved on the strength of Container Operations, which earned a profit of $8.6 million, compared with a loss of $2.0 million in the corresponding period of 1984. Stronger rates and reduced expenses were the predominant reasons for the turnaround. Bulk Shipping's loss of $11.8 million was $862,000 greater than in the first half of 1984. This was the result of market weakness and, as reported in the first quarter, losses on the sale of two vessels, largely offset by income from settlement of a charter dispute.

Results of CP Trucks, although slightly worse in the first six months, showed improvement during the second quarter. Further progress was made in curtailing costs through rationalization programs, which helped to alleviate the effects of industry wide over-capacity and pressure on rates.

Soo Line Corporation incurred a loss during the first six months, of which CP Limited's 55.7% share amounted to $2.5 million. This was in contrast to a profit of $4.5 million in the first half of 1984. Soo's freight traffic was lower and interest charges rose, especially during the second quarter, as a result of additional borrowings to purchase the Milwaukee Road in February 1985.

Volume growth contributed largely to an increase in earnings from CP Telecommunications during the first six months.

The reduction of $15.7 million in the loss from Miscellaneous during the first half was due to a number of factors. The most significant were tax benefits arising from the recent tube mill partnership arrangement between CP Limited and Algoma Steel, a gain from the early termination of a leasehold interest, lower interest expense and favourable currency exchange movements.

Canadian Pacific Enterprises Limited
Although income from Enterprises, 69.7% owned by CP Limited, increased $8.3 million over the first half of 1984, there was a decline in the second quarter amounting to $15.3 million. The Oil and Gas, Forest Products and Iron and Steel sectors all had better six-month results, but reductions occurred in Mines and Minerals and Agri-products, which also accounted for most of Enterprises' second quarter decrease, and there was a loss in the Financial sector.

Higher sales of oil, natural gas and natural gas liquids led to an increase of $7.5 million in Enterprises' income from Oil and Gas during the first six months.

The loss from Forest Products was $20.0 million less than in the first half last year. This was because of CIP Inc., where newsprint selling prices moved up and there were positive effects from a stronger U.S. dollar. Selling prices for pulp, however, were depressed.

Despite weak selling prices for steel, Algoma Steel benefited from cost reductions and some improvement in product mix. These were the chief factors contributing to a reduction of $13.4 million in the loss from Iron and Steel during the first six months.

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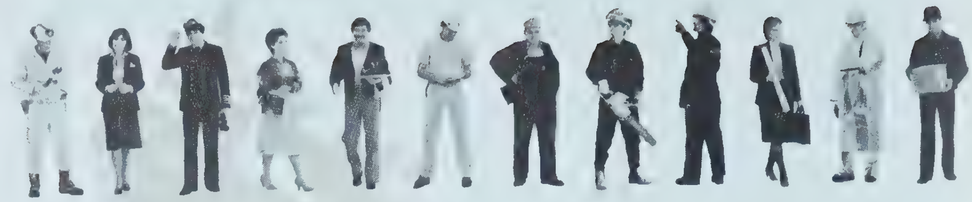
Report for the six months ended June 30, 1985

Canadian Pacific Limited



To the Shareholders:
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The reduction of $15.7 million in the loss from Miscellaneous during the first half was due to a number of factors. The most significant were tax benefits arising from the recent tube mill partnership arrangement between CP Limited and Algoma Steel, a gain from the early termination of a leasehold interest, lower interest expense and favourable currency exchange movements.

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Higher sales of oil, natural gas and natural gas liquids led to an increase of $7.5 million in Enterprises' income from Oil and Gas during the first six months.

The loss from Forest Products was $20.0 million less than in the first half last year. This was because of CIP Inc., where newsprint selling prices moved up and there were positive effects from a stronger U.S. dollar. Selling prices for pulp, however, were depressed.

Despite weak selling prices for steel, Algoma Steel benefited from cost reductions and some improvement in product mix. These were the chief factors contributing to a reduction of $13.4 million in the loss from Iron and Steel during the first six months.

A decrease of $9.0 million in income from Mines and Minerals during the first half was attributable to the effects on Cominco of weak prices for zinc, lead, silver and gold. The reduction was mitigated in the first quarter of 1985 when Cominco realized a net gain of $9.4 million on the sale of a part of its interest in Pine Point Mines Limited, whereas in the second quarter of 1984 there was a net gain of $5.2 million arising principally from the sale of an oil recovery project.

In the Agriproducts sector, there was a loss of $1.1 million, in contrast with a profit of $8.6 million in the first half last year. Of the reduction, $7.3 million represented a provision in June for a net loss on the sale by Maple Leaf Mills of its 50% interest in Maple Leaf Monarch Company. Also in June, Enterprises sold its wholly-owned subsidiary, Theresa Friedman & Sons, Inc.

A loss of $3.2 million from the Financial sector, compared with a profit of $5.6 million in the 1984 period, was due largely to lower interest income.

Enterprises recently announced the purchase by PanCanadian of all the tax losses and investment tax credits of CIP Inc. for $65 million; CIP used the proceeds to reduce its debt. As a result of this transaction, Enterprises will post a gain of approximately $22 million in 1986 as the tax losses are realized. Enterprises also announced the merger of CIP Forest Products Inc. with CIP Inc. The combined operation will continue under the name CIP Inc.

Outlook

While economic prospects in Canada remain favourable, growth in the Company's earnings could continue to be inhibited by weak traffic volumes and generally unsatisfactory rate and price levels.

W. W. Atkinson

President and
Chief Executive Officer

F. S. Burbidge

Chairman

Montreal, August 12, 1985.

Statement of Consolidated Income

Unaudited

	Three months ended June 30		Six months ended June 30	
	1985	1984	**1985**	1984
	(in thousands, except per share amounts)			
CP Rail				
Revenues	**$ 661,346**	$ 652,771	**$ 1,259,444**	$ 1,250,952
Expenses including income taxes	**615,546**	600,455	**1,200,296**	1,169,677
Net income	**45,800**	52,316	**59,148**	81,275
CP Air				
Revenues	**360,251**	300,165	**661,535**	547,376
Expenses including income taxes	**356,195**	297,156	**666,697**	558,383
	4,056	3,009	**(5,162)**	(11,007)
Preference dividend	**801**	826	**1,604**	1,621
Net income	**3,255**	2,183	**(6,766)**	(12,628)
CP Ships				
Revenues	**90,695**	88,093	**176,079**	166,405
Expenses including income taxes	**89,326**	93,061	**172,315**	179,611
	1,369	(4,968)	**3,764**	(13,206)
Minority interest	**4,442**	614	**6,919**	(298)
Net income	**(3,073)**	(5,582)	**(3,155)**	(12,908)
CP Trucks				
Revenues	**96,403**	93,330	**187,873**	183,195
Expenses including income taxes	**95,669**	92,817	**188,418**	183,539
Net income	**734**	513	**(545)**	(344)
Soo Line Corporation				
Revenues	**233,579**	98,114	**402,704**	206,172
Expenses including income taxes	**240,663**	96,094	**407,186**	198,027
	(7,084)	2,020	**(4,482)**	8,145
Minority interest	**(3,134)**	895	**(1,983)**	3,609
Net income	**(3,950)**	1,125	**(2,499)**	4,536
CP Telecommunications				
Revenues	**44,242**	43,004	**87,962**	84,521
Expenses including income taxes	**42,086**	40,903	**83,263**	80,648
Net income	**2,156**	2,101	**4,699**	3,873
Miscellaneous				
Net income	**(1,475)**	(11,340)	**(4,162)**	(19,861)
Transportation and Miscellaneous				
Net income	**43,447**	41,316	**46,720**	43,943
Canadian Pacific Enterprises Limited				
Revenues	**2,609,640**	2,565,490	**4,985,549**	4,932,618
Expenses including income taxes	**2,530,137**	2,454,438	**4,805,066**	4,768,004
	79,503	111,052	**180,483**	164,614
Minority interests	**38,524**	54,815	**85,262**	77,644
Net income	**40,979**	56,237	**95,221**	86,970
Total revenues	**4,001,660**	3,750,382	**7,570,497**	7,185,700
Total expenses including income taxes and minority interests	**3,917,234**	3,652,829	**7,428,556**	7,054,787
Net Income	**$ 84,426**	$ 97,553	**$ 141,941**	$ 130,913
Earnings per Ordinary Share	**$ 0.39**	$ 0.46	**$ 0.66**	$ 0.61

See Notes

Summarized Statement of Income from Canadian Pacific Enterprises Limited

Unaudited

	Three months ended June 30 1985	Three months ended June 30 1984	Six months ended June 30 1985	Six months ended June 30 1984
	(in thousands)			
Oil and Gas*	**$ 59,679**	$ 61,991	**$ 136,607**	$ 129,107
Mines and Minerals*	**3,195**	12,088	**5,332**	14,380
Forest Products*	**(5,880)**	(6,304)	**(12,308)**	(32,337)
Iron and Steel*	**(536)**	(2,759)	**(2,632)**	(16,029)
Real Estate*	**4,308**	7,945	**11,030**	12,149
Agriproducts*	**(3,274)**	3,513	**(1,057)**	8,590
Other Businesses	**3,205**	2,193	**5,870**	3,876
Financial	**(352)**	2,845	**(3,158)**	5,639
Enterprises – Net income	**60,345**	81,512	**139,684**	125,375
Minority interest	**19,366**	25,275	**44,463**	38,405
Net Income	**$ 40,979**	$ 56,237	**$ 95,221**	$ 86,970

*After interest of outside shareholders

Statement of Changes in Consolidated Financial Position

Unaudited

	Six months ended June 30 1985	Six months ended June 30 1984
	(in thousands)	
Source of Funds		
Net income	**$ 141,941**	$ 130,913
Depreciation, depletion and amortization	**489,699**	430,641
Deferred income taxes	**54,647**	26,216
Minority interest in income of subsidiaries	**91,802**	82,576
Funds from operations	**778,089**	670,346
Reduction of investments	**14,722**	66,570
Issuance of long term debt	**519,470**	153,321
Issuance of shares by subsidiaries	**12,483**	105,808
Proceeds from sale of subsidiaries	**73,773**	—
Proceeds from disposal of properties	**38,268**	47,987
Sundries, net	**33,583**	15,123
Decrease (increase) in working capital	**145,102**	(12,600)
	$ 1,615,490	$ 1,046,555
Application of Funds		
Additions to properties	**$ 784,217**	$ 493,171
Additions to investments	**38,306**	28,337
Acquisition of railway operations and related net assets by a subsidiary	**257,366**	—
Reduction in long term debt	**339,970**	409,685
Preferred shares purchased for cancellation	**10,769**	851
Dividends	**51,322**	50,854
Dividends paid minority shareholders of subsidiaries	**66,800**	63,657
Working capital deficit of railway operations acquired by a subsidiary	**18,787**	—
Working capital of subsidiaries sold	**47,953**	—
	$ 1,615,490	$ 1,046,555

Condensed Consolidated Balance Sheet
Unaudited

June 30	1985		1984	
	(in thousands)			
Assets				
Current assets		$ 4,889,912		$ 4,617,716
Insurance fund		4,363		4,235
Investments		437,362		428,594
Properties, at cost	$21,124,146		$19,019,024	
Less: Accumulated depreciation, depletion and amortization	6,922,653	14,201,493	6,270,480	12,748,544
Other assets and deferred charges		616,268		596,995
		$20,149,398		$18,396,084
Liabilities				
Current liabilities		$ 4,065,770		$ 3,817,664
Deferred liabilities		275,711		166,796
Insurance reserve		4,363		4,235
Long term debt		5,819,119		5,097,935
Perpetual 4% consolidated debenture stock		170,692		169,027
Minority shareholders' interest in subsidiary companies		3,057,466		2,862,080
Deferred income taxes		1,844,005		1,707,760
Deferred income credits		285,062		243,999
Shareholders' equity				
Preferred shares	$ —		$ 11,849	
Preference shares	14,870		14,870	
Ordinary shares	358,311		358,311	
Premium on securities	115,310		115,305	
Other paid-in surplus	162,288		162,323	
Foreign currency translation adjustments	281,995		256,498	
Retained income	3,694,436	4,627,210	3,407,432	4,326,588
		$20,149,398		$18,396,084

Notes

1. Total revenues and expenses reflect elimination of inter-company transactions.
2. Total expenses include the following amounts:

	Three months ended June 30		Six months ended June 30	
	1985	1984	1985	1984
	(in thousands)			
Depreciation, depletion and amortization	$ 252,029	$ 227,006	$ 489,699	$ 430,641
Interest expense	186,837	174,043	368,116	337,541
Income taxes	141,711	140,262	234,515	233,592

3. The Corporation's Preferred shares were redeemed on March 28, 1985 and the Ordinary and Preference shares were split on a three-for-one basis effective May 17, 1985.

Legal deposit – 3rd Quarter 1985

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Canadian Pacific Limited

104th Annual Meeting of Shareholders

Report of Proceedings May 1, 1985

Report of Proceedings of the One Hundred and Fourth Annual Meeting of Shareholders held at Calgary, Alberta, on Wednesday, May 1, 1985.

The meeting assembled in accordance with the convening notice at 11:00 a.m., Calgary time, at The Palliser Hotel, Calgary, Alberta.

In accordance with the by-laws of the Corporation, the Chairman of the Corporation, Mr. F.S. Burbidge, presided and the Secretary of the Corporation acted as secretary of the meeting.

There were 103 shareholders and proxyholders present at the meeting. A total of 54,157,124 votes were represented consisting of 54,137,593 votes in respect of which proxies had been deposited with the Corporation in accordance with the proxy requirements set forth in the notice calling the meeting and 19,531 votes represented by shareholders who attended the meeting in person.

The Chairman informed the meeting that the Secretary had deposited with him a statutory declaration establishing the publication of newspaper advertisements and the giving of written notice as required by Section 128 of the Canada Business Corporations Act (CBCA) and in addition the sending of notice of the time and place of the meeting to each shareholder entitled to vote thereat and to each director and to the auditors of the Corporation as required by Section 129 of the CBCA. The Chairman then declared the meeting to be regularly called and properly constituted for the transaction of business.

With the approval of the meeting, the Chairman named Mr. R.E. Francis and Mr. M. Guitard, both employees of The Royal Trust Company, to act as Scrutineers.

The Chairman introduced members of the Board of Directors and referred to the retirement from the Board at this meeting of Mr. A.M. Runciman, O.C. He and the shareholders acknowledged Mr. Runciman's significant contribution to the affairs of the Corporation during his more than 16-year tenure as a director of the Corporation.

He then introduced Mr. C. Douglas Reekie, a nominee to fill the vacancy on the Board, as well as representatives of the Corporation's auditors.

The Chairman then introduced two members of the audience. The first was Mr. N.R. Crump, a former Chairman and Chief Executive Officer and a Director of the Corporation from 1949 to 1972. The second was Mr. T.H. Lawson, a former Assistant Secretary of the Corporation who was attending his fifty-fifth consecutive annual meeting of shareholders.

The Chairman outlined the financial results for the first quarter of 1985 and informed the meeting as follows:

> "As shareholders know, the Corporation has had a Dividend Reinvestment Plan since 1977 and under that plan, shares are purchased on the market. I am pleased to announce that earlier today the Board of Directors approved a number of changes to that plan that I believe will be of interest to you. Effective August 30th, the plan will cease to be a market purchase plan and will become a treasury share plan. Shares will continue to be issued at market price but will no longer attract brokerage commissions. Since new shares will be issued under the plan, it is expected that these shares will qualify for inclusion in a Quebec Stock Savings Plan. In addition, I should mention that cash payments will be increased from $6,000 per year to $20,000 per year, and that these payments will now be accepted on a monthly rather than a quarterly basis.
>
> The directors have also approved a new Stock Dividend Plan to come into effect on August 30th. This plan will have generally the same terms as the Dividend Reinvestment Plan but will allow shareholders to elect to receive stock dividends rather than cash dividends and since these dividends attract a different tax treatment, the existence of the two plans will allow shareholders to opt for the plan that best suits their individual circumstances. After the necessary regulatory approvals have been obtained, you will receive more detailed information about these plans and how you may participate in them."

Mr. Austin G.E. Taylor moved and Mr. Bryce W. Douglas seconded the following resolution concerning the confirmation of minutes of the Annual and Special General Meeting of Shareholders held on May 2, 1984:

RESOLVED, that reading of the minutes of the Annual and Special General Meeting of Shareholders, held on May 2, 1984, be dispensed with and that said minutes be taken as read and confirmed.

The question having been put to a vote, the Chairman declared the motion carried.

The Chairman then addressed the meeting as follows:

The Chairman:

Ladies and Gentlemen:

No matter how many times I cross this country, I still find it hard to grasp completely how much we and our ancestors have accomplished in not much more than 100 years.

The wonder of it all strikes me even more forcefully when I'm in the West and look around at what we have fashioned out of the emptiness that greeted the early pioneers when they settled here and began to build a new world.

When I see the oil and gas wells, the pipelines, the farms, the cities and sense the culture and the spirit that exist here today, I take a renewed pleasure in our past and get a fresh jolt of excitement about our future.

Then I remember some lines Bruce Hutchison wrote in his book "The Unknown Country" back in 1942.

In his preface entitled "My Country" he wrote "A backward nation they call us beside our great neighbour – this though our eleven millions have produced more, earned more, subdued more and built more than any other eleven millions in the world."

Even though we've more than doubled the millions, I think the point is still worth remembering.

It is now more than 40 years since Bruce Hutchison wrote those words. Some of those years have been easy; but others have not.

Certainly, the last few years have been trying on all fronts.

Many of the economic beliefs so many of us held to be absolute turned out, in fact, to be only shells. We've learned there are no automatic markets for our natural resources and that even our vast reserves of oil and gas cannot, after all, protect us from the turmoil in world energy markets.

Worse – much worse – we now know that inflation and unemployment can join to become a double-edged knife, drawing the blood from so many of our companies and the hopes from too many of our people.

Here in the West, the disillusionment has been so great because the dreams were piled so high.

Our pain of recent years has, I think, made all of us feel a little less sure of our nerve.

In Western Canada, there is that added anguish that comes from the feeling that, just when we had our chance, it was snatched away.

But, maybe, the future is brighter than we think.

If, as analysts often say, the Canadian Pacific family of companies is actually a mirror of the Canadian economy, the news is good.

You've all seen our results. Last year was substantially better than 1983.

Much of that improvement came through Canadian Pacific Enterprises companies active in oil and gas, mines and minerals, forest products and iron and steel.

The job of carrying some of those commodities, with other products, also brought a solid performance on the railway's part.

You'll note that several of those CPE groups and the railway itself are strongly western-based. Perhaps that shows that the skeptics who had written off those businesses were a bit premature.

We think so. In fact, we see nothing to convince us that the company's faith in Western Canada has been misplaced.

That faith has been of rather long duration.

It will be 100 years next November since a group of railwaymen and officials stood around at Craigellachie, a lonely spot not far from Revelstoke, to watch Donald Smith pound a plain iron spike, joining the rails from West to East.

To those on the scene in 1885, the driving of the Last Spike was the sign that they had succeeded in summoning the incredible ingenuity and perseverance to do something many said could not be done.

But to most of them, it was more than that. They believed they were building more than a railway. They knew they were helping to build a nation.

From the words they wrote at the time, I know they really did see themselves as nation-builders.

I often wonder how those gruff pioneers would react if we could invite them to CP Rail's anniversary celebration this summer to show them their Canada a century later.

I wonder what they would say if we could take them into the Selkirks they dreaded so much to show them the building of the new tunnel at Rogers Pass – the railway's single largest undertaking since their day.

The word "megaproject" would be new to them, but, after one glance, I'm sure they would understand its meaning.

They would be delighted, I think, and maybe even a bit overwhelmed, when we told them why Canadian Pacific's present-day shareholders and employees have made such a significant commitment to retunnel and double-track the Pass.

Those men might find the $600-million price tag hard to fathom since they laid 3,000 miles of track through virgin and almost impossible terrain for little more than a sixth that much.

But when we started to talk about increasing capacity and productivity and efficiency to make sure the ever-growing volume of Canadian goods gets to market at the lowest possible cost, they might say among themselves that even if the size of the challenge has changed, the spirit hasn't.

Then when we brought them up to date and told them how the promise of the West they believed in so bravely has been fulfilled beyond their wildest imaginings – of the coal, the grain, the sulphur, the potash and the manufactured products that move each day across this huge land – I think even the most sober of them would manage a grudging smile.

And I'd love to be able to watch the look in their eyes when we went on to describe what their company has become. Canadian Pacific, today, we would say, is much, much more than a railway.

A hundred years after that misty day at Craigellachie, Canadian Pacific has truly bet on Canada, investing in many of the industries that make the modern country tick.

Air travel and telecommunications we would probably have to explain a bit, like trucking and container shipping and agriproducts.

But, they would have no trouble with mines and minerals, oil and gas, real estate, pulp and paper or manufacturing and steel.

No doubt that earlier smile would broaden somewhat when we told our founders that for many years now, this company has been thoroughly Canadian.

In fact, Canadian Pacific – and here we might brag a little – is one of the most widely held of all Canadian companies – owned by small shareholders and bigger ones from one coast to the other.

And when they had taken in all we'd told them, I think I know what would happen next.

"Fine," their spokesman would say. "What you say is good. You've made us very glad we came.

"But you've talked to us only about the past and the present. Tell us what you see in the future – in the next hundred years for this company and this country you seem to love.

"Tell us where the new struggles lie. Tell us how your Canadian Pacific will play its part in the next century of nation-building."

And perhaps it would be Van Horne who would add: "And tell it to us straight."

So that is what we would try to do.

Canada, we'd say, is no longer on the fringe of the world, as it might have seemed in their time.

Today, we live right in the middle of an immensely vital international economic community in which every country is trying to sell the most and buy the least from its trading partners so it can create the richest life and the most opportunity for its people.

For Canadians in 1985 – and for as long as we can see into the future – that means we can no longer coast on our advantages.

From now on, we have to make the most productive use of every resource we have.

Our listeners would probably wonder why we're telling them something so obvious. "Isn't that the way it's always been?" one of them might ask.

We would have to agree.

But then, if we were telling the truth, we'd have to admit that a lot of us – not only in Canada, but almost everywhere in the Western world – neglected those basics after we hit the good years when everything seemed so easy.

In some of our companies and institutions, we were so carried away with growth and expansion, we got sloppy about analyzing our costs, our markets, our quality and our service.

We got to thinking that a great, glorious future was ours just for the taking. So we took it – or at least we tried to.

And while we were all chasing after that impossible dream, we were actually squandering much of what we had built so painstakingly.

If we ourselves have learned nothing else from the agonies of the recession, we have learned that misusing a resource – whether it's capital, equipment, materials or, most precious of all, the creative energy of individuals – exacts a horrendous price from our companies and our communities.

We would have to tell those by now stern-faced men around us that to-day about a million-and-a-half Canadians who want and need to work, cannot find jobs.

And even after we explained the social assistance programs we now have to ease the greatest of the pain, they would tell us right out that it isn't good enough – not for long.

No country, they might add, ever achieves its full potential if so many of its people feel permanently trapped on the sidelines, unable to prosper by their own efforts or to make any real addition to the common good.

Then one, maybe Van Horne again, would mutter, "We understand now what Canada is up against. Tell us what must be done."

Canadians, we'd say, have to abandon the bad habit we've developed in the last few years of thinking that when something goes wrong, it's up to government to put it right.

We have to learn again to say "Yes, it's up to us" and our governments have to remember to say "No, it's really up to you. We can only help."

On that score, we couldn't find better teachers anywhere than those men surrounding us. To them, the resourcefulness and the daring of individuals harnessed together was the best force invented to make a country grow.

They didn't have to think about it; that sense of self-reliance was in their blood.

In 1886, George Stephen was able to report to shareholders that within several months, Canadian Pacific would have discharged its obligations to the government and paid back all its government loans, five years before they were due.

"In the future," he added, "the company will neither expect nor need anything from the government but fair treatment and earnest and judicious effort in the important work of settling up the country, developing its resources and promoting the general prosperity of the whole people of the Dominion.

"In all of which it will have the hearty co-operation of the company."

"Ah yes," Stephen might say to us. "That is the bargain we made.

"But, now gentlemen, let's talk about Canadian Pacific."

The first thing we'd tell them is that we will continue to build on what has been built so far – a family of successful companies in which people can make their own contribution and be rewarded and which, over all, adds enormously to the greater wealth of the country.

We will continue to support the companies that do well now and help them grow. And we will continue to improve the ones that can do better.

Then we will have to be eternally alert for new methods, new products, new services that will genuinely satisfy the needs and wants of our customers wherever we can find them in that global community.

The broad base of our existing activities gives us many windows through which to watch for prospective new developments world-wide.

Our accent on people and our reliance on the management of the individual unit gives us the flexibility to take advantage of the opportunities with real merit.

Being even partly right about what will work in the future, though, is the tricky part.

We will have to do our homework very thoroughly, so that when we commit money and jobs to a new venture, we are as sure as anyone can be in an unpredictable world, that we have identified a solid trend and not merely been seduced by an alluring fad.

Canadian Pacific is not a trendy company, after all. It is in business for the long haul.

When we began to move beyond our initial businesses of transportation and communications, the managers of the time looked for industries that were fundamentally sound – that would endure.

Those two criteria have been the watchwords ever since.

No matter how fierce or how fluid the competition becomes in Canada or beyond, I doubt the people of Canadian Pacific will ever find better yardsticks by which to measure their decisions than soundness and endurability.

I wouldn't be able to tell those builders of yesteryear – and I can't tell you here to-day – precisely what the mix of Canadian Pacific's business will be, down the road, as technology and markets go on evolving.

I can tell you only that our company will be evolving with them – prudently.

In the simplest terms, the answer to Van Horne's question is that Canadian Pacific must continue to strive to be the best – both at what we do well already and at whatever new endeavours we grow into.

When we succeed, it pays off in dollars and cents for our employees and our shareholders, of course. But the real bonus is much more widespread than that.

Our customers benefit, because from us, they get the best possible product at the best possible price. And that gives them an added chance to pass on the same rewards to their employees and shareholders and customers.

Even our competitors benefit, because if we are the best, they have to try to be better.

This competition forces us all to make the most creative use of all our resources – especially the most irreplaceable – the inventiveness of the human mind.

This constant endeavour to excel is really, it seems to me, the working of the free market at its most productive. It's the way the system passes on the greatest good to the greatest number.

We are convinced that the ultimate test of the worth of any enterprise is how well it plays its role in that process.

When we in our companies match the goals I've talked about, we accomplish many things.

We create new, interesting and lasting jobs at home, not only in our own businesses, but in the thousands of firms which sell to us and buy from us.

By using the best technology, no matter where it originates, we help make Canada an active, aggressive and successful player in the unforgiving struggle for world markets.

As a result, we help make a bigger pie for all Canadians to share. And we help provide opportunity for individual Canadians to develop their skills and make their mark.

That may not seem as dramatic as laying a steel road across the wilderness, but it is nation-building all the same.

Nothing fundamental has changed in Canada since Bruce Hutchison wrote the words I quoted at the beginning.

Canadians have always had to scratch and adapt and experiment to survive. Despite the disappointments of the past few years, our nerve hasn't really forsaken us.

We still have, within us – here in the West and across this country – the resolve and courage we need to seize the new chances. And there are many.

If our famous visitors choose to come back another century from now, I know they will find a better, more vital Canada to observe – and a stronger Canadian Pacific too.

And they'll also find a whole raft of new wonders to excite their souls.

On behalf of the directors, the Chairman then placed before the meeting the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon for the year ended December 31, 1984, pursuant to the requirements of Section 149 of the CBCA.

The Chairman then informed the shareholders that there were four matters of business to be voted on at the meeting. Two matters related to amendments to the articles requiring special resolutions and those would be voted on by ballot. The other two matters relating to the election of directors and the appointment of auditors would be dealt with by ordinary resolution. With regard to these matters, he declared to the meeting that, if ballots were taken on those resolutions, the total number of votes attached to

shares represented at the meeting by proxy required to be voted against what to his knowledge would be the decision of the meeting on those matters, was less than 5% of all the votes that might be cast on such ballots and that he had therefore decided to conduct the votes by a show of hands unless a shareholder demanded a ballot.

The meeting then proceeded to the election of three directors for a term of three years, three directors for a term of two years and one director for a term of one year. The Chairman advised that under the CBCA shareholders are required to elect directors by ordinary resolution. Mr. C.E. Medland moved and Mr. James W. Snowdon seconded the following resolution:

RESOLVED, that A.S. Kingsmill, Q.C., Stanley A. Milner and Claude Pratte, Q.C. be and they are hereby elected directors for a term of three years; that Donald C. Matthews, C. Douglas Reekie and W.W. Stinson be and they are hereby elected directors for a term of two years; and that The Rt. Hon. Lord Polwarth, T.D., D.L. be and he is hereby elected a director for a term of one year.

There being no discussion on the motion, the question was put to a vote and the Chairman declared the motion carried. He declared that A.S. Kingsmill, Q.C., Stanley A. Milner and Claude Pratte, Q.C. had been elected directors for a term of three years, that Donald C. Matthews, C. Douglas Reekie and W.W. Stinson had been elected directors for a term of two years; and that The Rt. Hon. Lord Polwarth, T.D., D.L. had been elected a director for a term of one year.

The Chairman stated that the next order of business was the appointment of auditors. Mr. Latham C. Burns moved and Mr. Peter L. Jones seconded the following resolution:

RESOLVED, that Price Waterhouse be and they are hereby appointed auditors of the Corporation to hold office until the close of the next Annual Meeting of Shareholders.

The question having been put to a vote, the Chairman stated that the motion had been carried and he declared accordingly.

The Chairman then stated that the notice calling the meeting had indicated that two special resolutions would be presented. He said that shareholders will be asked to consider and, if thought advisable, to pass a special resolution to amend the articles of continuance of the Corporation to subdivide its Ordinary Shares and its Preference Shares on a three-for-one basis and to make

certain consequential amendments to the said articles. He said that shareholders will also be asked to consider and, if thought advisable, to pass a special resolution to amend the articles of continuance of the Corporation to change the maximum number of Ordinary Shares that the Corporation is authorized to issue from 100,000,000 to an unlimited number. The Chairman informed the shareholders that the reasons for this action were outlined in the proxy statement mailed to all shareholders with the notice calling this meeting; that the full texts of the special resolutions were attached as Schedules I and III to the proxy statement; that, to become effective, the first special resolution required approval by a majority of not less than two-thirds of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the resolution and also by a majority of not less than two-thirds of the votes cast by the holders of Preference Shares present or represented and voting on the resolution separately as a class; that, to become effective, the second special resolution required approval by a majority of not less than two-thirds of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the resolution; and that both resolutions were unanimously recommended to the shareholders by the Board of Directors of the Corporation.

The Chairman informed the meeting that, because of its length and since its terms were set out in full in Schedule I to the proxy statement, reading of the first special resolution would be dispensed with. Mr. Stephen H. Wood moved and Mr. Lawrence A. Johnson seconded the following resolution:

RESOLVED, that the special resolution, as set out in Schedule I to the proxy statement dated March 11, 1985, be and it is hereby passed.

The terms of the said special resolution as set out in the said Schedule I are as follows:

RESOLVED as a special resolution that:

1. The articles of continuance of the Corporation be amended to subdivide the issued and unissued Ordinary Shares and Preference Shares at the close of business of the registered office of the Corporation on May 17, 1985 on a three-for-one basis.

2. The following additional amendments consequential to the subdivision of shares be made to the articles to come into effect upon the subdivision becoming effective:

(i) the maximum dividend payable on each Preference Share be reduced from \$0.12 per Canadian Dollar Preference Share per annum and £0.04 per Sterling Preference Share per annum to \$0.04 and £0.01⅓ per annum, respectively, so that paragraph 2.c) of Schedule A to the said articles shall be amended to read as follows:

> "c) As to dividends the Preference Shares shall take priority over Ordinary Shares up to, but not exceeding 4% per annum, being \$0.04 per Canadian Dollar Preference Share per annum and £0.01⅓ per Sterling Preference Share per annum, and shall not receive at any time a dividend at a higher rate than 4% per annum or in excess of these amounts. Dividends on the Preference Shares shall not be cumulative and if for any period or periods the dividends on such Preference Shares be less than 4% per annum, being \$0.04 per Canadian Dollar Preference Share per annum or £0.01⅓ per Sterling Preference Share per annum, the deficiency or any part of it shall not be made good afterwards.
> A holder of a fraction of a Preference Share is entitled to receive a dividend in respect of that fraction.";

(ii) the references in paragraph 2) appearing under the heading "SHARES" in Schedule A to the said articles to \$5 of ordinary stock and to \$3 and to £1 of preference stock be changed to \$1.66⅔ of ordinary stock and to \$1 and to £0.33⅓ of preference stock, respectively, so that the said paragraph shall be amended to read as follows:

> "2) a number of Preference Shares without nominal or par value such that the amount of preference stock outstanding may equal but shall not exceed at any time ½ the aggregate amount of the ordinary stock then outstanding and that the authorized capital of the Corporation shall be decreased by the preference stock of the Corporation surrendered in consideration

of preferred shares of the Corporation and cancelled prior to its continuance under the Canada Business Corporations Act, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be the equivalent of $1 and £0.33⅓ respectively of preference stock and each Ordinary Share being deemed to be the equivalent of $1.66⅔ of ordinary stock,'';

(iii) the references in paragraph 2.e) of Schedule A to the said articles to $3 of such preference stock and to £1 of such preference stock be changed to $1 and to £0.33⅓ of such preference stock, respectively, so that the said paragraph be amended to read as follows:

''e) The rights of the holders of the Preference Shares on dissolution shall be determined on the basis of the provisions applicable to the preference stock of the Corporation immediately preceding its continuance under the Canada Business Corporations Act and in accordance with the provisions applicable to the other classes of shares of the Corporation and for that purpose each Canadian Dollar Preference Share shall be deemed to be $1 of such preference stock and each Sterling Preference Share shall be deemed to be £0.33⅓ of such preference stock and the provisions applicable to the Ordinary Shares and the Preferred Shares shall be deemed to be those applicable to the ordinary stock and the preferred shares respectively of the Corporation immediately preceding such continuance.'';

(iv) the references in section 6 of Schedule C to the said articles to $3 and £1 of preference stock be changed to $1 and £0.33⅓ of preference stock, so that the said section shall be amended to read as follows:

''6. The Corporation may at any time and from time to time on such terms and conditions as the directors of the Corporation may from time to time prescribe issue any of the Preferred Shares of the Corporation in consideration of the surrender of any

Preference Shares of the Corporation, provided that what would be the par value of any such Preferred Shares so issued if each of them were a preferred share having a par value of $10 shall not exceed what would be the par value of the Preference Shares so surrendered, for such purpose each Canadian Dollar Preference Share and each Sterling Preference Share being deemed to be $1 and £0.33⅓ respectively of preference stock. Any Preference Shares so surrendered shall be cancelled and the authorized and issued capital of the Corporation shall be thereby decreased.";

(v) the references in section 8 of Schedule C to the said articles to $3 and £1 of preference stock be changed to $1 and £0.33⅓ of preference stock, so that the said section shall be amended to read as follows:

"8. Except to the extent otherwise required by the Canada Business Corporations Act, Preference Shares and Preferred Shares shall be issued in accordance with the provisions applicable to the preference stock and preferred shares respectively of the Corporation immediately preceding its continuance under the Canada Business Corporations Act and for such purpose each Canadian Dollar Preference Share shall be deemed to be $1 of such preference stock, each Sterling Preference Share shall be deemed to be £0.33⅓ of such preference stock and each Preferred Share shall be deemed to be 1 such preferred share.";

(vi) a subsection 2) be added to section 11 of Schedule C to the said articles for the purpose of determining the rights of the holders of the Preference and Preferred Shares on dissolution, so that the said subsection shall read as follows:

"2) Upon the first subdivision of the Ordinary Shares and Preference Shares on a three-for-one basis becoming effective, for the purpose of determining the rights of the holders of the Preference Shares and of the Preferred Shares on dissolution in accordance with the rights,

privileges, restrictions and conditions respectively attached thereto, each Ordinary Share and each Canadian Dollar Preference Share and Sterling Preference Share shall be deemed to be $1.66⅔ of ordinary stock and $1 and £0.33⅓ of preference stock respectively."

3. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to sign and deliver such other notices and documents and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

A poll first was conducted by ballot in which the holders of the Ordinary and Preference Shares present or represented at the meeting voted together on the foregoing resolution and then a poll was conducted by ballot in which the holders of Preference Shares present or represented at the meeting voted separately as a class on the foregoing resolution.

The Chairman instructed the Scrutineers to retire, tabulate the ballots and provide the Chair with a separate Scrutineers' Report on each of the two polls.

The Chairman recessed the meeting until receipt of the Scrutineers' Reports on the polls. At the conclusion of the recess, the Chairman called the meeting to order. He then read and adopted the Scrutineers' Report on the poll of the holders of the Ordinary and Preference Shares voting together on the foregoing resolution. He said that 53,815,361 votes had been cast for the resolution and that 219,114 votes had been cast against the resolution. He declared the motion carried by a majority of more than two-thirds of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the special resolution.

The Chairman then read and adopted the Scrutineers' Report on the poll of the holders of Preference Shares only voting separately as a class on the foregoing resolution. He said that 4,040,352 votes had been cast for the resolution and that 4,771 votes had been cast against the resolution. He declared the motion carried by a majority of more than two-thirds of the votes cast by the holders of Preference Shares present or represented at the meeting and voting on the resolution separately as a class.

The Chairman directed that the Scrutineers' Reports be annexed to the minutes of the meeting.

The Chairman stated that the next item of business to come before the meeting was the second special resolution, which was set forth as Schedule III to the proxy statement. Mr. J. Brian Aune moved and Mr. Terrance K. Salman seconded the following resolution:

RESOLVED, as a special resolution that:

1. The articles of continuance of the Corporation be amended to change the maximum number of Ordinary Shares that the Corporation is authorized to issue from 100,000,000 to an unlimited number.

2. The proper officers of the Corporation be and they are hereby authorized and directed to sign and deliver for and on behalf of the Corporation articles of amendment and to do such other acts and things as may be considered necessary or desirable to give effect to this special resolution.

During discussion and in reply to a question, shareholders were informed that the purpose of the special resolution to amend the articles to change the maximum number of Ordinary Shares that the Corporation is authorized to issue to an unlimited number was to facilitate the raising of additional equity capital in the future, and that having an unlimited number of shares is a practice that has been adopted by many companies.

A poll was conducted by ballot in which the holders of Ordinary and Preference Shares present or represented at the meeting voted together on the foregoing special resolution.

The Chairman instructed the Scrutineers to retire, tabulate the ballots and provide the Chair with a Scrutineers' Report on the poll.

The Chairman then addressed the meeting, as follows:

"Ladies and Gentlemen, for some time now it has been my intention to retire as an Officer of the Corporation at the 1986 Annual Meeting and in order to effect an appropriate transition, I have proposed to the Board of Directors that at the meeting of the Board to be convened following this meeting they elect a new Chief Executive Officer and that I continue as Chairman of the Corporation. The Board has requested me to tell you that it is their intention to elect Mr. W.W. Stinson as President and Chief Executive Officer of the Corporation and to elect me as Chairman.

I am sure all of you know Bill Stinson. He has demonstrated that he is an outstanding President and I know he can and will handle his new role as Chief

Executive Officer in the same competent and professional way that he has carried out his duties as President.

We all wish him well in his new role. I think it says something about this Company that in addition to the qualities I have described, he is a fourth generation Canadian Pacific man.''

The Chairman recessed the meeting until receipt of the Scrutineers' Report on the poll. At the conclusion of the recess, the Chairman called the meeting to order. He then read and adopted the Scrutineers' Report on the poll of the holders of the Ordinary and Preference Shares voting together on the foregoing special resolution. He said that 51,456,557 votes had been cast for the resolution and that 2,133,556 votes had been cast against the resolution. He declared the motion carried by a majority of more than two-thirds of the votes cast by the holders of the Ordinary and Preference Shares present or represented at the meeting and voting together on the special resolution.

The Chairman directed that the Scrutineers' Report be annexed to the minutes of the meeting.

There being no further business, Mr. Francis B. Lamont moved and Mr. Harold Barry Johnson seconded the following resolution:

RESOLVED, that this meeting do now terminate.

The question having been put to a vote, the Chairman declared the motion carried and the meeting terminated.

F. S. Burbidge

Chairman

Secretary

At a meeting of the Board of Directors held after the shareholders' meeting, Mr. F.S. Burbidge was appointed Chairman and Mr. W.W. Stinson was appointed President and Chief Executive Officer.

The following were appointed members of the Executive Committee:

Mr. F.S. Burbidge
Mr. Robert W. Campbell
Mr. Paul Desmarais, O.C.
Mr. W. Earle McLaughlin, O.C.
Mr. Paul L. Paré, O.C.
Mr. Claude Pratte, Q.C.
Mr. W.W. Stinson
Mr. Ray D. Wolfe, C.M.

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